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IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

SEBASTIAN INTERNATIONAL, INC.,
Petitioner,
vs.
LONGS DRUG STORES CORPORATION,
Respondent.

PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether the judicially created "first sale" doctrine — which provides that once a trademarked article is sold by the mark's owner, the owner's rights in that article are exhausted — exonerates violations of Sections 32(1) and 43(a) of the Lanham Act, which prohibit trade practices that include misrepresentations to the public and conduct likely to cause consumer confusion.

PARTIES TO THE PROCEEDINGS

The parties to the proceedings below were petitioner Sebastian International, Inc. and respondent Longs Drug Stores Corporation.[1]

Sebastian International, Inc. has no parent companies, partially owned subsidiaries or affiliates that have issued shares of stock to the public, except as follows: Wella Capital, Inc., a Delaware corporation, owns 100% of the stock of Wella U.S.A. Corp., a Delaware corporation. Wella Capital, Inc. owns a majority of the stock of Sebastian International, Inc.

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[1] An *amici curiae* brief was filed in the court of appeals below. Costco Wholesale Corporation, the Price Company and The National Association of Chain Drug Stores filed the brief in support of respondent Longs Drug Stores Corporation.

TABLE OF CONTENTS

Page

QUESTION PRESENTED i

PARTIES TO THE PROCEEDINGS ii

LIST OF APPENDICES. iv

TABLE OF AUTHORITIES. v

OPINIONS BELOW 1

JURISDICTION 1

STATUTORY PROVISIONS INVOLVED 2

STATEMENT OF THE CASE 2

REASONS FOR GRANTING THE PETITION . . 6

I. THE NINTH CIRCUIT DECISION IS AN UNWARRANTED EXTENSION OF THIS COURT'S PRECEDENTS AND CONFLICTS WITH THE PLAIN LANGUAGE OF THE LANHAM ACT 7

II. THE NINTH CIRCUIT DECISION CONFLICTS WITH THE FIFTH AND FEDERAL CIRCUITS 11

III. THE NINTH CIRCUIT DECISION PRESENTS A JUSTICIABLE AND IMPORTANT QUESTION OF FEDERAL LAW . . .14

CONCLUSION. 16

Page

LIST OF APPENDICES

APPENDIX A

OPINION, Ninth Circuit Court of Appeals, Filed May 8, 1995 . . . . . A1

APPENDIX B

ORDER, Ninth Circuit Court of Appeals, Filed July 20, 1995 . . . . . B1

APPENDIX C

ORDER Re Plaintiff's Motion for Preliminary Injunction, United States District Court Central District of California, Filed May 11, 1994 . . . . . C1

APPENDIX D

Statutory Provisions Involved

15 U.S.C. § 1054 . . . . . D1

15 U.S.C. § 1114(1) D2

15 U.S.C. § 1125(a)(1) D4

TABLE OF AUTHORITIES

Page

Cases

Bill Blass, Ltd. v. SAZ Corp.,
751 F.2d 152 (3d Cir. 1984) 10

Champion Spark Plug Co. v. Sanders,
331 U.S. 125 (1947) 8

Continental TV, Inc. v. GTE Sylvania, Inc.,
433 U.S. 36 (1977). 12

El Greco Leather Products Company v.
Shoe World, Inc.,
806 F.2d 392 (2d Cir. 1986) 10

F.R. LePage Bakery v. Roush Bakery
Products Company,
851 F.2d 351 (Fed. Cir. 1988) *withdrawn,*
vacated and remanded, 863 F.2d 43
(Fed. Cir. 1988), *vacated and modified,*
13 U.S.P.Q.2d 1045 (TTAB 1989) 15, 16

General Electric Company v. Speicher,
877 F.2d 531 (7th Cir. 1989). 10

In re Stencel Aero Engineering Corp.,
170 U.S.P.Q. 292 (TTAB 1971) 15, 16

Keeler v. Standard Folding Bed Company,
157 U.S. 659 (1895) 13

Mallinckrodt, Inc. v. Medipart, Inc.,
976 F.2d 700 (Fed. Cir. 1992) 13, 14

Page

Matrix Essentials, Inc. v. Emporium
Drug Mart, Inc.,
988 F.2d 587 (5th Cir. 1993). 4-6, 12

Monte Carlo Shirt, Inc. v. Daewoo
International (America) Corp.,
707 F.2d 1054 (9th Cir. 1983) 10

NEC Electronics v. CAL Circuit Abco,
810 F.2d 1506 (9th Cir. 1987) 6

Pacific & Southern v. Satellite Broadcast Networks,
694 F. Supp. 1565 (N.D. Ga 1988). 10

Prestonettes, Inc. v. Coty,
264 U.S. 359 (1924) 5-7, 9, 11, 16

Qualitex Company v. Jacobson Products, Inc.,
115 S. Ct. 1300, 131 L.Ed.2d 248 (1995). 16

Shell Oil Company v. Commercial Petroleum, Inc.,
928 F.2d 104 (4th Cir. 1991). 10

Supreme Assembly, Order of Rainbow for Girls
v. J. H. Ray Jewelry Company,
676 F.2d 1079 (5th Cir. 1982) 12

Trans Sport, Inc. v. Sportswear, Inc.,
964 F.2d 186 (2d Cir. 1992) 11

Two Pesos, Inc. v. Taco Cabana, Inc.,
112 S.Ct. 2753, 120 L.Ed.2d 615 (1992) 11

Page

Miscellaneous

S. Rep. No. 1333, 79th Cong., 2d Sess. (1946) 12

Trademark Manual of Examining Procedure
§ 1304.05 15

Statutes

15 U.S.C. § 1054 2
15 U.S.C. § 1114(1) 2, 4
15 U.S.C. § 1121 4
15 U.S.C. § 1125(a) 2, 4, 9, 10
28 U.S.C. § 1254(1) 1
28 U.S.C. § 1331 4
28 U.S.C. § 1338 4
23 U.S.C. § 2101(c) 1

Rules

United States Supreme Court Rule 13.4 1

No. _____

In The
SUPREME COURT OF THE UNITED STATES
October Term, 1995

SEBASTIAN INTERNATIONAL, INC.,
Petitioner,
vs.
LONGS DRUG STORES CORPORATION,
Respondent.

PETITION FOR WRIT OF CERTIORARI

OPINIONS BELOW

The opinion of the court of appeals (App. A) is reported at 53 F.3d 1073. The opinion of the district court (App. C) is reported at 30 U.S.P.Q.2d 1785.

JURISDICTION

The court of appeals entered its judgment on May 8, 1995 (App. A). This petition is filed within 90 days of entry of judgment pursuant to 28 U.S.C. § 2101(c) and United States Supreme Court Rule 13.4. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The principal statutory provisions involved in the case are Sections 4, 32(1) and 43(a)(1) of the Lanham Act, 15 U.S.C. §§ 1054, 1114(1), and 1125(a)(1). The provisions of the statutes are included *verbatim* in Appendix D.

STATEMENT OF THE CASE

1. This case concerns the relationship between the judicially created "first sale" doctrine and Sections 32(1) and 43(a) of the Lanham Act, which prohibit misrepresentations and trade practices likely to cause consumer confusion. The first sale doctrine holds that once a trademarked article is sold by the mark's owner, the owner's rights in the article are exhausted.

The issue here is whether the first sale doctrine supersedes the literal language of the Lanham Act. If it does, then a reseller of genuine goods can misrepresent facts and even confuse the public as to the source of goods or as to the identification of members of a collective organization — all without liability.

2. Sebastian International, Inc. ("Sebastian") is a leading manufacturer of professional hair care products sold only in establishments like salons, which employ licensed cosmetologists trained in the correct selection and use of Sebastian products. Sebastian has never sold its products through retail outlets such as drug stores or department stores. In order to ensure that its professional products are sold only in salons that employ trained, competent individuals, Sebastian requires its distributors to sign written contracts whereby they agree not to sell Sebastian products to anyone other than qualified salons.

Notwithstanding these agreements and Sebastian's efforts to ensure that its products are sold only in salons with licensed cosmetologists, Sebastian's products have appeared on the shelves of retail establishments like drug stores.

To combat the diversion of its products to unqualified retailers and to better serve its clients, in 1992 Sebastian formed the "Sebastian Collective Salon Membership Program" (the "Collective"). In order to become a member of the Collective, salons and distributors must be trained in the use of Sebastian products and must agree not to sell Sebastian products to entities other than members of the Collective or member salons' clientele.

In 1993, Sebastian registered "Sebastian Collective Salon Member" as a collective membership mark with the United States Patent and Trademark Office (the "PTO"). Federal Registration No. 1,787,663 covers the word component of the mark and Federal Registration No. 1,787,664 covers a design component of the mark. The mark (the words or the design or both) is prominently displayed on posters, signage and in various advertisements. It is also placed on Sebastian's products and signifies that the entity distributing or offering the products for sale is a member of the Collective and has been trained in the proper use of Sebastian products. The district court found that extensive use of the collective mark created consumer awareness that the mark denotes membership in the Sebastian Collective. (App. C3). The district court also found that the public was confused about whether Longs was a collective member, which it is not. The district court further found that the manner in which Longs exhibited and sold the Sebastian products constituted an actionable misrepresentation. (App. C10).

3. Longs Drug operates a large chain of drug stores which include cosmetics departments. Longs employs

no licensed cosmetologists, nor are Longs' employees otherwise trained in Sebastian's products. Longs does not perform the quality control which is a hallmark of the Collective program. Longs purchases and resells Sebastian products bearing the collective membership mark, although it is not a member of the Sebastian Collective. As the Ninth Circuit noted, "Longs presumably purchases such products from a salon or distributor in violation of their agreement with Sebastian." (App. A2).

4. Sebastian sued Longs in the United States District Court for the Central District of California.[1] The lawsuit was filed on May 18, 1993, alleging violations of the Lanham Act, 15 U.S.C. §§ 1114(1), 1125(a). Sebastian filed a motion for a preliminary injunction to enjoin Longs' sales of Sebastian products bearing the collective mark, which was granted.

In its detailed written order and opinion (App. C), the district court made various findings, including:

- that consumer confusion was likely;
- that Sebastian's collective mark was likely valid;
- that the first sale doctrine should not be applied in a "rote" manner; and
- that, unlike *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587 (5th Cir. 1993) and other first sale doctrine cases relied upon by Longs, misrepresentations and likelihood of confusion were present.[2]

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[1] *Sebastian Int'l, Inc. v. Longs Drug Store Corp.*, Case No. 93-2891 WDK (EEx). The complaint alleged jurisdiction based upon 15 U.S.C. § 1121 and 28 U.S.C. §§ 1331, 1338.

[2] *Matrix* possesses an appealing similarity to the present case. In *Matrix*, defendant Emporium purchased plaintiff Matrix's goods and resold them without authorization. Moreover, Matrix manufactured

(continued)

5. On appeal, the Ninth Circuit overturned the preliminary injunction. The crux of its ruling, based upon *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924), was that "Courts have consistently held that, with certain well-defined exceptions, the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product." (App. A3-4).

The Ninth Circuit objected to Sebastian attempting to control "the downstream distribution of its products to the ultimate consumers and eliminating 'diversion' to unauthorized retailers." (App. A5). The appellate court concluded that the first sale doctrine "is not rendered inapplicable merely because consumers erroneously believed the reseller is affiliated with or authorized by the producer." (App. A6).

The Ninth Circuit held that the first sale doctrine was well established long before Congress authorized the registration of collective marks in the 1946 Lanham Act. (App. A5). The Ninth Circuit then justified its decision by explaining that the legislative history of the Act was silent on the issue of providing a trademark owner with a method of controlling downstream sales of its products. *Id.*

To rebut Sebastian's argument that the first sale doctrine should not apply, the Ninth Circuit relied on its

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(fn. continued)
and sold specialty hair care products to be resold through salons only, just like petitioner here. Two critical differences exist, however. First, in *Matrix* there was no consumer confusion nor any misrepresentation. Here, the district court found both consumer confusion and misrepresentation. (App. C10). Second, the Fifth Circuit, unlike the Ninth Circuit, approved of restraints on resales, but declined to impose any restraints, as there was no finding of confusion. Here, the Ninth Circuit disapproved of any restraints on the grounds that the first sale doctrine precluded them regardless of a finding of confusion. (App. A4-5).

own decision in *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987), and particularly the Fifth Circuit decision in *Matrix, supra*.

Without a discussion of the evidence, the Ninth Circuit overlooked the distinction between collective membership marks and trademarks, and was silent on the district court finding that Longs had sold defective products in a manner resulting in a misrepresentation that violated the Lanham Act. Thus, contrary to the Sebastian survey establishing public confusion, on which the Ninth Circuit was also virtually silent, and contrary to the district court's findings of Longs' misrepresentations in the merchandising of the Sebastian products, the Ninth Circuit refused to find that Longs was "misrepresenting that it is part of, or associated or affiliated with, the Collective, as well as Sebastian." (App. A8 n.8).[3]

REASONS FOR GRANTING THE PETITION

Not only is the Ninth Circuit decision a mutation of this Court's precedent in *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924), it is contrary to the plain language and policies of Section 43(a) of the Lanham Act and exalts the rights of an infringer over those of the public and the trademark owner. It also conflicts with intellectual property law in other circuits, and follows the economic presuppositions of antitrust dogma this Court rejected two decades ago.

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[3] In an abbreviated concurrence (App. A9-10), Judge Ferguson concluded that the Sebastian collective membership mark was invalid, because Sebastian was a member of the Collective. Judge Ferguson's opinion is discussed below, and is not an impediment to this Court granting *certiorari*.

A trademark owner can no longer establish a violation of the literal language of Section 43(a) of the Lanham Act and be assured of protection. When the owner of a mark establishes infringement because of the public's likelihood of confusion and a defendant's affirmative misrepresentation, *per se* application of the first sale doctrine is improper. Otherwise, trademark law cannot protect the public or the trademark owner.

I.

THE NINTH CIRCUIT DECISION IS AN UNWARRANTED EXTENSION OF THIS COURT'S PRECEDENTS AND CONFLICTS WITH THE PLAIN LANGUAGE OF THE LANHAM ACT

This Court adopted the first sale doctrine in *Prestonettes v. Coty*, 264 U.S. 359 (1924). The Court held that Coty, a manufacturer of face powder, could not sue under the Trademark Act of 1905 (the predecessor to the Lanham Act) to prevent Prestonettes from labeling its compact as containing genuine Coty face powder. Coty was a federally registered trademark. In the words of Justice Holmes:

> When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo.

264 U.S. at 368.

In essence, the Court simply held that "collateral reference to [another's] mark" would be permitted in appropriate circumstances. *Id.* at 369. It did not condone public confusion or misrepresentations.

The Court re-visited the issue of collateral use of a trademark in *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947). There, Sanders reconditioned and resold used Champion sparkplugs. This Court permitted Sanders to continue using the Champion name on the sparkplugs, but only under the limitation that the plugs were identified as "used" or "repaired." A general disclaimer was required of the cartons containing the sparkplugs. 331 U.S. at 130.

Neither decision of this Court, separately or together, articulated the broad rule now instituted by the Ninth Circuit, which has extended the first sale doctrine to condone conduct expressly and literally prohibited by the Lanham Act — i.e., conduct resulting in misrepresentations to the purchasing public and a likelihood of consumer confusion.

Trademark law is based on the assumption that, without some mechanism to permit an informed consumer choice, meaningful competition would be extremely limited, as would the consumer's knowledge and ability to choose. Trademarks function more broadly than a simple identifier, because they protect the consumer from deception while rewarding a trademark owner for his commercial efforts. Indeed, Section 43(a) of the Lanham Act is very broad:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof . . . or false or misleading representation of fact, which (a) is likely to cause confusion or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to

> the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in a civil action. . . .

15 U.S.C. § 1125(a)(1).

That language clearly covers the misrepresentations and confusion for which the district court held Longs responsible. As the district court found, Longs misrepresented the quality of the Sebastian product and confused the public as to Longs' membership in the Sebastian Collective. (App. C10).

With a wave of the first sale doctrine, the Ninth Circuit absolved Longs. The appellate court never held that the district court abused its discretion or made any clearly erroneous findings. In fact, it appeared to concede that Sebastian had established a likelihood of confusion. "The 'first sale' rule is not rendered inapplicable merely because consumers erroneously believed the reseller is affiliated with or authorized by the producer." (App. A6). However, the Ninth Circuit ignored Justice Holmes' admonition in *Prestonettes* that the use of a trademark must be truthful.

To prevent the first sale doctrine from swallowing the Lanham Act, numerous jurisdictions have drawn the boundary at potential consumer confusion. If a trademark is altered; if trademarked goods are altered; if a license has been terminated; if quality control is not maintained; if a trademark owner rejects goods, even wrongfully; if a television program is rebroadcast by satellite with the unlicensed use of a station's trademarked call letters; or if a genuine trademarked product is sold without warnings or instructions — all of these situations can result in violations of the Lanham

Act despite the first sale doctrine.[4]

Ninth Circuit authority conflicts with this line of cases. For example, the Ninth Circuit has held that when a trademark owner contracted to manufacture shirts to plaintiff's specifications and bearing plaintiff's trademark, and the trademark owner rejected the goods as untimely delivered, the manufacturer did not infringe the trademark when it sold the shirts to discount retailers. *See Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983). *Contra, Bill Blass, Ltd. v. SAZ Corp.*, 751 F.2d 152 (3d Cir. 1984) (preliminary injunction against sales of authentic but out of date goods creates a likelihood of confusion).

The Ninth Circuit has now stretched the first sale doctrine beyond all reasonable bounds.

Despite a survey that established likelihood of confusion, Longs' deliberate purchase of goods from a supplier known to be in breach of its contract with Sebastian, and Longs' misrepresentations as found by the district court, the Ninth Circuit said there still was no violation of 15 U.S.C. § 1125(a). The court of appeals rejected a clear showing that the public was likely to be confused and that Sebastian would be harmed in favor of a *per se* rule that to "stock, display, and resell a producer's product under the producer's trademark" cannot violate the Lanham Act. (App. A6).

By imposing the first sale doctrine over an infringement established by both misrepresentation and the

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[4] *See, e.g., General Electric Company v. Speicher*, 877 F.2d 531, 534 (7th Cir. 1989); *Shell Oil Company v. Commercial Petroleum, Inc.*, 928 F.2d 104 (4th Cir. 1991); *El Greco Leather Products Company v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986); *Pacific & Southern v. Satellite Broadcast Networks*, 694 F. Supp. 1565, 1573-74 (N.D. Ga 1988).

likelihood of consumer confusion, the Ninth Circuit has created a problem similar to that in *Two Pesos, Inc. v. Taco Cabana, Inc.*, 112 S.Ct. 2753, 120 L.Ed.2d 615, 627 (1992). In short, the court of appeal's automatic application of the first sale doctrine "would hinder improving or maintaining the producer's competitive position." If the trademark laws are to protect consumers and producers and sellers alike, thought should be applied to the situation before the protection of competition is, without meaningful analysis, automatically chosen over consumer confusion and restriction of the trademark owner's rights. To do otherwise neglects the broad scope and purpose of the Lanham Act.

The Ninth Circuit has fundamentally transformed *Prestonettes*. Seventy years ago this Court delimited the bounds of a retailer's conduct, requiring a disclaimer and "the truth." 264 U.S. at 368. In the decision below, the court of appeals would require neither, thereby negating *Prestonettes* and the cases that have followed it.

II.

THE NINTH CIRCUIT DECISION CONFLICTS WITH THE FIFTH AND FEDERAL CIRCUITS

Decisions by other circuits are directly at odds with the Ninth Circuit. The appellate court premised its use of the first sale doctrine on a complete prohibition of vertical restraints on the resale of a product. That notion has been rejected by the Fifth and Federal Circuits.[5]

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[5] The district court judge explicitly held that Sebastian had not violated the antitrust laws, *citing Trans Sport, Inc. v. Sportswear, Inc.*, 964 F.2d 186 (2d Cir. 1992) on the validity of resale restrictions. (App. C12).

Indeed, the Ninth Circuit's reliance on *Matrix* distorts what in essence is conflicting authority.

In *Matrix*, the Fifth Circuit dismissed an antitrust counterclaim premised on restricted distribution. 988 F.2d at 593-94. The Fifth Circuit expressly relied on this Court's decision in *Continental TV, Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977), which eliminated *per se* antitrust violations due to vertical restraints. The Ninth Circuit effectively used trademark law to constrict trade more narrowly than the antitrust laws, when Congress said the trademark laws should be interpreted as broadly as possible. S. Rep. No. 1333, 79th Cong., 2d Sess., 6 (1946).

Matrix actually was decided on a different basis than the Ninth Circuit's rationale for applying the first sale doctrine to downstream sales by independent parties. The Ninth Circuit embraced the notion of fostering competition at the expense of consumers and competitors. The only reason Matrix's trademark case failed was the absence of a likelihood of confusion, 988 F.2d at 592-93; it had nothing to do with competitive restraints, *id.* at 593-94. In stark contrast, Sebastian established a likelihood of confusion by the public.

Moreover, *Matrix* is consistent with an earlier Fifth Circuit case, involving a collective membership mark, which again intimated that under similar facts, with a likelihood of confusion, a Lanham Act violation would have been found. *See Supreme Assembly, Order of Rainbow for Girls v. J. H. Ray Jewelry Company*, 676 F.2d 1079 (5th Cir. 1982) (no trademark infringement or false designation of origin because no likelihood of confusion found).

The Ninth Circuit apparently adopted Longs' argument that the patent and copyright laws possess a narrow first sale doctrine that should also be applied to trademarks. That assertion is incorrect, as evidenced by

the Federal Circuit decision in *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). There, the Federal Circuit permitted the patentee to control the resale of its patented product, just like Matrix did with its trademarked goods. Consequently, the Federal Circuit, like the Fifth, conflicts with the Ninth.[6]

The Ninth Circuit accused Sebastian of unfairly trying to extend its trademark rights, simply by virtue of trying to control downstream sales of its products. Unlike the Ninth Circuit, however, the Federal Circuit has refused to apply *per se* the first sale doctrine. "Where an anti-competitive effect is asserted, the *rule of reason* is the basis of determining the legality. . . ." 976 F.2d at 706 (citations omitted, emphasis added).

The Federal Circuit emphasized that the purchaser of an article embodying an intellectual property right could use or resell the device without restriction *if* that device had been sold "*without any conditions.*" *Id.* at 707, *citing Keeler v. Standard Folding Bed Company*, 157 U.S. 659, 663 (1895) (original emphasis). But Sebastian, like Mallinckrodt, should be free to establish conditions. To the extent the Ninth Circuit has limited those conditions, it has placed itself in direct conflict with the Federal Circuit.

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[6] In *Mallinckrodt*, plaintiff sold its patented devices to hospitals, which after initial use of the devices sent them to Medipart for servicing so as to enable the hospitals to use the devices again. This violated Mallinckrodt's "single use only" restriction of its sales. Mallinckrodt claimed that Medipart thus "induced" infringement by the hospitals and also infringed the patent itself. The district court held that no conditions could be imposed on patented goods after their sale, and that Mallinckrodt's restriction could not convert into a license what was in substance actually a sale. 976 F.2d at 703. On appeal, this was overturned.

In closing its analysis of the *Mallinckrodt* case, the Federal Circuit adhered to an analytical framework not unlike the fair use of copyrights.

> Anticompetitive effects that are not *per se* violations of law are reviewed in accordance with the *rule of reason.* Patent owners should not be in a worse position, by virtue of the patent right to exclude, than owners of other property used in trade.

976 F.2d at 708 (emphasis added). Neither should trademark owners.

Clearly there is a conflict between the Ninth Circuit and the Fifth and Federal Circuits about how infringement is impacted by post-sale limitations on the product embodying the intellectual property right. That conflict requires resolution by this Court.

III.

THE NINTH CIRCUIT DECISION PRESENTS A JUSTICIABLE AND IMPORTANT QUESTION OF FEDERAL LAW

The question raised here is important. Without a clarification by this Court, owners of registered marks will face uncertainty in the application of the first sale doctrine. Without clarification, the public will be threatened with confusion when it purchases what it mistakenly believes are authentic goods and services from what it incorrectly perceives to be the member of a collective organization. Just as importantly, the precedents of this Court will face serious and unabated erosion. Without action from this Court, trademark infringers will take ever greater license in passing off their goods.

Granting *certiorari* will not entail any risk of an advisory opinion. The brief concurrence to the Ninth Circuit opinion by Judge Ferguson suggests that the Sebastian collective membership mark is invalid. There is no basis for concern; this case will remain justiciable.[7]

The concurring opinion focused upon Sebastian's membership in the Collective and its simultaneous ownership of the collective membership mark. A corporate member of a collective can own the collective membership mark. *In re Stencel Aero Engineering Corp.*, 170 U.S.P.Q. 292 (TTAB 1971), cited in Trademark Manual of Examining Procedure § 1304.05 (the "TMEP" - "Who May Own Membership Marks"). Moreover, the Trademark Office was aware of Sebastian's status as a corporate owner and member by virtue of Sebastian's application for the mark and its statements of use that are required before the mark can issue. (App. C5-6 n.1).

The concurring opinion based its determination of the invalidity of the collective membership mark on an inapposite case. *F.R. LePage Bakery v. Roush Bakery Products Company*, 851 F.2d 351 (Fed. Cir. 1988) *withdrawn, vacated and remanded*, 863 F.2d 43 (Fed. Cir. 1988), *vacated and modified*, 13 U.S.P.Q.2d 1045 (TTAB 1989) involved a member of a collective engaged in similar activities to those of the collective membership. It was making and selling its own wares under the collective mark. In contrast, Sebastian is not a salon, it is not in competition with the other Collective mem-

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[7] When the entire three judge panel had occasion to review its decision in the context of respondent's motion for fees, Judge Ferguson joined the majority in agreeing that:

> As this opinion indicates, difficult issues were raised by this appeal. . . . [Sebastian's] brief was professionally written and raised important legal questions.

(App. B1).

bers, and its relationship to the Collective is entirely different than the one in *LePage*. The district court clearly recognized the difference between *LePage* and *Stencel*, understood that they were not in conflict, and that *Stencel* and the TMEP prevailed. (App. C6 n.1).

This Court must act to preserve the consumer protection fundamental to the Lanham Act. The Ninth Circuit, relying on this Court's decision in *Prestonettes*, whitewashed deliberate misrepresentation and public confusion with the imprimatur of the first sale doctrine. Once again, in a trademark case the Ninth Circuit has taken the road less travelled "to justify a blanket prohibition" to cure "an occasional problem." *Qualitex Company v. Jacobson Products, Inc.*, 115 S. Ct. 1300, 131 L.Ed.2d 248, 257 (1995).

CONCLUSION

The Petition for Writ of Certiorari should be granted.

DATED: August 7, 1995.

Respectfully submitted,

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FOR PUBLICATION

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

SEBASTIAN INTERNATIONAL, INC., *Plaintiff-Appellee,* v. LONGS DRUG STORES CORPORATION, *Defendant-Appellant.*	No. 94-55461 D.C. No. CV-93-02891-WDK OPINION

Appeal from the United States District Court
for the Central District of California
William D. Keller, District Judge, Presiding

Argued and Submitted
December 7, 1994—Pasadena, California

Filed May 8, 1995

Before: James R. Browning, Alfred T. Goodwin
and Warren J. Ferguson, Circuit Judges.

Per Curiam; Concurrence by Judge Ferguson

OPINION

PER CURIAM:

Sebastian International sued Longs Drug Stores for trademark infringement and unfair competition. The district court preliminarily enjoined Longs from selling Sebastian's hair care products. Longs appealed. We reverse.

Facts

Sebastian manufactures hair care products including shampoos, conditioners, hair sprays and styling lotions. Sebastian affixes its trademark, a large, stylized "S," to the front of each container.

Sebastian seeks to have its products distributed to consumers only through professional salons. It sells only to professional salons and distributors who are members of an organization created and controlled by Sebastian called the "Sebastian Collective Membership Program." Members must agree to resell Sebastian's products only to other members of Sebastian's "Collective" or to salon clientele. Sebastian registered a collective membership mark consisting of the words "Sebastian Collective Salon Member,"[1] and affixes this mark to the back of containers of its products.

Longs purchases and resells Sebastian products, although it is not a member of Sebastian's "Collective." Since Sebastian sells its products only to salons and distributors who are members of the "Collective" and have agreed not to resell to non-Collective members like Longs, Longs presumably purchases Sebastian products from a salon or distributor who sells the product to Longs in violation of its agreement with Sebastian.

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[1]The mark was also registered as a collective service mark during the pendency of this appeal.

Sebastian filed this action against Longs contending that by reselling Sebastian products bearing the mark "Sebastian Collective Salon Member," Longs falsely represents to consumers that Longs is authorized by Sebastian to resell Sebastian products. Sebastian argues that such resales violate Sebastian's rights under the Lanham Act.[2]

Discussion

I.

[1] Since 1924, courts have recognized a basic limitation on the right of a trademark owner under the Lanham Act to control the distribution of its own products. Beginning with *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924), courts have consistently held that, with certain well-defined exceptions,

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[2]Section 32 of the Lanham Act, prohibiting trademark infringement, provides, in pertinent part:

> Any person who shall, without the consent of the registrant . . . use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistakes, or to deceive . . . shall be liable in a civil action by the registrant . . . .

15 U.S.C. § 1114(1). Section 43(a)(1) of the Lanham Act, prohibiting unfair competition, provides, in pertinent part:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which . . . is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a)(1).

the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product. Resale by the first purchaser of the original article under the producer's trademark is neither trademark infringement nor unfair competition.[3]

The "first sale" rule provides a sensible and stable accommodation between strong and potentially conflicting forces. By guaranteeing that a product will be identified with its producer, it serves the legitimate purposes of trademark law — the producer gains the good will associated with the quality of its product, and the consumer gets exactly what the consumer bargains for, the genuine product of the particular producer.[4] On the other hand, the "first sale" rule preserves an area for competition by limiting the producer's power to control the resale of its product.[5] The "first sale" doctrine has proven to be a reliable and useful guide in an area in which a high volume of business-driven litigation must be expected.

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[3]*See, e.g., NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987) (sale of genuine trademarked product by seller unauthorized to sell not a violation of Lanham Act); *see also Matrix Essentials v. Emporium Drug Mart*, 988 F.2d 587, 593 (5th Cir. 1993) (same); *H.L. Hayden Co. v. Siemens Medical Sys.*, 879 F.2d 1005, 1023 (2d Cir. 1989) ("[T]he unauthorized sale of a trademarked article does not, without more, constitute a Lanham Act violation."); Restatement (Third) of Unfair Competition § 24 cmt. b (1995) ("[T]rademark owner cannot ordinarily prevent or control the sale of goods bearing the mark once the owner has permitted those goods to enter commerce."); 3A Rudolf Callmann, The Law of Unfair Competition, Trademarks and Monopolies § 21.13 (4th ed. 1994 & Fall Cum. Supp. 1994) (under the "first sale" doctrine, mere resale of "the genuine plaintiff's article in its original form" is not trademark infringement).

[4]*See, e.g., Inwood Lab. v. Ives Lab.*, 456 U.S. 844, 854 n.14 (1982) (citing S. Rep. No. 1333, 79th Cong., 2d Sess. 3 (1946), evidencing the Act's goal of protecting the trademark owner's investment in good will, and H.R. Rep. No. 944, 76th Cong., 1st Sess. 3 (1939), reflecting the goal of protecting against deceit of consumers).

[5]*See, e.g.*, S. Rep. No. 1333, 79th Cong., 2d Sess. (1946) ("[T]rademarks are not monopolistic grants like patents and copyrights" and quoting *Prestonettes*).

[2] For the express purpose of controlling the downstream distribution of its products to the ultimate consumers and eliminating "diversion" to unauthorized retailers, Sebastian seeks to avoid the "first sale" rule and enjoin Longs from reselling Sebastian products that Longs has purchased on the open market. We reject Sebastian's attempt to circumvent the "first sale" rule.

II.

Sebastian argues the "first sale" rule is not applicable to articles sold under a collective mark. This would be a remarkable result.

[3] The "first sale" doctrine was well established long before Congress authorized the registration of collective marks in the Lanham Act in 1946. Nothing in the language or legislative history of the Lanham Act suggests that, by authorizing the registration of marks identifying membership in a lodge, political party, club, or other collective organization, Congress intended to provide producers with a simple and fail-safe method to control the channels of distribution of trademarked products — a power they had been denied at least since the ruling in *Prestonettes*. In the half century since the Lanham Act was enacted, no court has detected the presence of such a legislative purpose. There is no mention of this possibility in Committee hearings or reports, on the floor of Congress, or in subsequent case law or commentary. The language of the Lanham Act precludes such a far-reaching departure from established trademark law by expressly providing that a collective mark shall have the same effect and provide the same protection as a trademark, effectively making the "first sale" rule equally applicable to both.[6]

[6]Section 1054 states, "collective . . . marks . . . shall be registrable under this chapter, in the same manner and with the same effect as are trademarks . . . and when registered they shall be entitled to the protection provided in this chapter in the case of trade-marks . . . ." 15 U.S.C. § 1054.

III.

Sebastian argues the "first sale" doctrine does not apply when resale by the first purchaser under the producer's trademark creates a likelihood of consumer confusion. Sebastian asserts that a survey it commissioned indicates that Longs's action of stocking and reselling Sebastian products bearing the collective mark has in fact confused consumers "into believing [falsely] that there is some type of affiliation, association, or approval between Longs and Sebastian . . . ."

[4] Sebastian's premise is false. The "first sale" rule is not rendered inapplicable merely because consumers erroneously believe the reseller is affiliated with or authorized by the producer. It is the essence of the "first sale" doctrine that a purchaser who does no more than stock, display, and resell a producer's product under the producer's trademark violates no right conferred upon the producer by the Lanham Act. When a purchaser resells a trademarked article under the producer's trademark, and nothing more, there is no actionable misrepresentation under the statute.

The Fifth Circuit's decision in *Matrix Essentials v. Emporium Drug Mart*, 988 F.2d 587 (5th Cir. 1993), and this circuit's decision in *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987), undercut Sebastian's argument. Matrix, like Sebastian, wished to channel the resale of its trademarked hair products through professional salons. Matrix placed labels on some containers reading "Sold Only in Professional Salons." Matrix sued Emporium Drug Mart for reselling Matrix hair products purchased in the open market, arguing that "by stocking Matrix products, Emporium is deceiving the public into believing that Matrix has authorized Emporium to do so." *Id.* at 590. The Fifth Circuit rejected Matrix's argument, stating, "[a]bsent more culpable conduct on the part of the seller, we are unwilling to find misrepresentation in the mere act of putting a manufacturer's product on one's shelf and offering it for sale." *Id.* at 593. In reaching

this conclusion, the Fifth Circuit relied in part upon this court's holding in *NEC*, which applied the "first sale" doctrine despite the district court's finding "that some purchasers . . . mistakenly thought their chips were protected by [the producer's] servicing and warranties." *NEC*, 810 F.2d at 1508.

As *Matrix* implies, conduct by the reseller other than merely stocking and reselling genuine trademarked products may be sufficient to support a cause of action for infringement. Sebastian relies upon two such cases finding Lanham Act violations because the reseller used the trademark in a manner likely to cause the public to believe the reseller was part of the producer's authorized sales force or one of its franchisees. *See Bandag, Inc. v. Al Bolser's Tire Stores*, 750 F.2d 903 (Fed. Cir. 1984); *Stormor, a Div. of Fuqua Indus. v. Johnson*, 587 F. Supp. 275 (W.D. Mich. 1984). In both cases, the reseller's conduct went beyond the mere resale of the trademarked goods. In *Bandag*, the reseller used the producer's trademark in a telephone directory advertisement in such a way as to suggest the reseller was one of the producer's franchisees, 750 F.2d at 911, 916; in *Stormor* the reseller displayed the producer's trademark in the reseller's booth at a trade show and in a trade journal advertisement, and stamped the reseller's name on the producer's promotional literature and used it to advertise the resale of the producer's products by the reseller, 587 F. Supp. at 279.[7]

[5] Nothing in the record suggests that Longs did anything more than stock and resell genuine Sebastian products law-

[7]Sebastian also contends that courts "have enjoined the resale of genuine goods even where the trademark owner arguably mislabeled the products," citing *Clairol, Inc. v. Boston Discount Ctr.*, 608 F.2d 1114 (6th Cir. 1979). However, *Clairol* turned on the fact that the defendant sold Clairol's products without the instructions and warnings distributed with genuine Clairol products to assure their safe use. *See* 608 F.2d at 1120-21; *see also Shell Oil Co. v. Commercial Petroleum*, 928 F.2d 104, 107-08 (4th Cir. 1991); *Adolph Coors Co. v. A. Genderson & Sons*, 486 F. Supp. 131, 136 (D. Colo. 1980).

fully acquired on the open market under the true Sebastian trademark — the precise conduct excluded from the Lanham Act by the "first sale" rule.

[6] Sebastian seeks to bootstrap its case over this obstacle by arguing that when Longs resold genuine Sebastian products in the original containers, the membership mark placed on the container by Sebastian itself became a misrepresentation by Longs that Longs was affiliated with Sebastian.[8] If Sebastian were correct, a producer could avoid the "first sale" rule and invoke the assistance of the courts in controlling downstream distribution of its trademarked products simply by placing a statement on the container that the product was being resold only by affiliates of the producer. Because Sebastian itself placed the collective mark on its products, it is primarily responsible for any confusion that resulted from the mark's assertion of affiliation, and that confusion cannot be used to support a charge of infringement against Longs. *See Sega Enter. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1528 (9th Cir. 1993).[9]

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[8]To quote Sebastian: "This is not a case of simply stocking genuine goods bearing a genuine *trademark*, as Longs tries to make it out to be. Rather, Longs is voluntarily acquiring and displaying Sebastian products *bearing the collective membership mark* that, by definition and appearance, states 'Sebastian Collective Salon Member.' Longs is thus misrepresenting that it is part of, or associated or affiliated with, the Collective, as well as Sebastian."

[9]Sebastian concedes that it formed the Collective and created the collective mark "[i]n an effort to combat the 'diversion' of its products to [drug stores and other retail locations] . . . ." As we held in *Sega*, a trademark owner's "deliberate decision . . . to include in [its product] a device which would both limit general access and cause false labeling," 977 F.2d at 1529, was contrary to trademark policy because " '[a] trademark is misused if it serves to limit competition in the manufacture and sales of a product. That is the special province of the limited monopolies provided pursuant to the patent laws.' " *Id.* at 1515-30 (quoting *Anti-Monopoly, Inc. v. General Mills Fun Group*, 611 F.2d 296, 301 (9th Cir. 1979) (citations omitted)).

Conclusion

[7] The "first sale" doctrine shields Longs from liability for the mere resale of Sebastian products, and it was error to grant Sebastian's motion for preliminary injunction.

REVERSED and REMANDED.

FERGUSON, J., concurring:

I concur in the reversal of the district court's preliminary injunction prohibiting Longs from selling Sebastian's hair care products. I write separately, however, in order to resolve an issue not discussed by the majority. The district court erred in holding that the collective membership and service mark in this case is valid. For this reason, Sebastian's motion for a preliminary injunction was meritless.

A collective mark, be it a collective trademark, membership mark, or service mark, is different from a trademark:

> The term "collective mark" means a trademark or service mark–
>
> (1) used by the members of a cooperative, an association, or other collective group or organization, or
>
> (2) which such cooperative, association, or other collective group or organization has a bona fide intention to use in commerce and applies to register on the principal register established by this chapter, and includes marks indicating membership in a union, an association, or other organization.

115 U.S.C. § 1127. A primary consequence of this difference is that an "[a]pplication to register a membership mark must

be made by the *organization* which controls or intends to control the use of the mark, and therefore, owns or is entitled to use the mark; *application may not be made by a member*." Trademark Manual of Examining Procedure, § 1304 (emphasis added). In *F.R. Lepage Bakery v. Roush Bakery Products Co.*, 851 F.2d 351, 353 (Fed. Cir. 1988), a case factually similar to the case at hand, the court held:

> An individual person or corporation which is making and/or selling goods on which a trademark is being used is not, in that capacity, the owner of a *collective* mark and cannot register it as a collective mark. This is true even though such person or corporation is a member of a collective group.

(Emphasis in original.) If an individual member of a collective does register a collective mark, the mark is invalid. *Id.*

The district court noted that Sebastian, and not the organization, filed to register the collective membership and service mark. The district court tried to distinguish *Lepage* from this case, holding that Sebastian is not a member of the collective group and consequently could rightfully register the marks. However, the charter of the collective group unambiguously states:

> The charter member of this business club is SEBASTIAN, and is not subject to loss of membership.

The district court's holding that Sebastian is not a member of the collective group was clearly erroneous.

As an individual member of the collective group, Sebastian was not entitled to register the collective membership and service mark. Because the collective mark is invalid, the district court's grant of a preliminary injunction on the basis of the protection provided by the mark was improper.

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

FILED
JUL 20 1995
Cathy A. Catterson, Clerk
U.S. Court of Appeals

SEBASTIAN INTERNATIONAL, INC.
Plaintiff-Appellee,

v.

LONGS DRUG STORES CORPORATION,
Defendant-Appellant.

No. 94-55461
D.C. No. CV-93-02891-WDK

ORDER

Before: BROWNING, GOODWIN and FERGUSON,
Circuit Judges

This appeal does not present an "exceptional circumstance," 15 U.S.C. § 1117(a), under any standard. *See Scotch Whiskey Ass'n v. Majestic Distilling Co.*, 958 F.2d 594 (4th Cir. 1992) (surveying various standards). "As this opinion indicates, difficult issues were raised by this appeal. . . . [Sebastian's] brief was professionally written and raised important legal questions." *U-Haul Int'l v. Jartran*, 793 F.2d 1034, 1044 (9th Cir. 1986). Longs's motion for attorneys fees on appeal is denied.

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

FILED
MAY 11 1994
Clerk, U.S. District Court
Central District of California
By /s/ Deputy

THIS CONSTITUTES NOTICE OF ENTRY
AS REQUIRED BY FRCP, RULE 77(d).

SEBASTIAN INTERNATIONAL INC.
Plaintiff,

v.

LONGS DRUG STORES CORP.
Defendant.

No. CV 93-2891 WDK

ORDER RE PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

I. INTRODUCTION

Before the Court is plaintiff Sebastian International Inc.'s ("Sebastian") Motion for Preliminary Injunction against Defendant Longs Drug Stores Corporation ("Longs"). The underlying lawsuit involves Sebastian's claims of unfair competition and trademark infringement arising from Longs' sale of genuine Sebastian products bearing their original marks. After oral argument and considerable further analysis, this Court reverses its tentative ruling and GRANTS Sebastian's motion for preliminary injunction.

II. FACTUAL BACKGROUND

Sebastian manufactures and distributes hair care products, including shampoos, conditioners, permanents, and colors. It sells its products only to professional salons and distributors that agree to sell only to professional salons. (Motion p. 1)

In the past, "diverters" have sold Sebastian products to unauthorized retailers including drug stores and other non-salon retail outlets. Some of these unauthorized resellers presumably sell the products in higher volume and at lower prices than the authorized salons. In order to combat such diversion, in 1992 Sebastian formed "The Sebastian Collective Membership Program" ("Collective"). Sebastian authorizes only members of the Collective to sell its products and limits membership to professional salons and distributors that agree to resell only to members or member salons' clientele. Sebastian conducts product seminars and educational classes for and distributes product training and educational materials to members of its collective. (Motion p. 1)

In April 1992, Sebastian filed to register the "Sebastian Collective Salon Member" as a collective membership and service mark. These marks are displayed on Sebastian's products. (Motion p. 1). The collective membership mark has been registered, and the service mark has been accepted for allowance by the Trademark Office.

Defendant Longs operates a chain of general merchandise and drug stores. It is neither a salon, an authorized distributor, nor a member of the Collective, nor does it employ licensed cosmetologists. Since at least 1987, Longs has sold unadulterated Sebastian products bearing their original marks. There is some evidence that Longs displays Sebastian products in a disheveled manner and sells defective products. One Sebastian

representative visited a Longs location and observed that many of the products had fallen down on the shelf and observed that one of the hair spray bottles was missing a nozzle. (Driscoll Decl. Exh. 2, 9)

Significantly, Sebastian conducted a consumer survey of respondents who had recently shopped in drug stores for hair care products. After being shown a placard depicting the collective mark, respondents were asked if they believed the store displaying the sign would need authorization to do so. Fifty six percent answered in the affirmative. (Cogan Exh. 2, p. 10) Then, after being shown a product and specifically directed to the collective mark, respondents were asked if they would believe the store would have to get authorization or permission to carry it. Thirty eight percent answered in the affirmative. (Cogan Exh. 2, p. 11) When then asked if they believed the store is affiliated with or associated with the Sebastian Collective program, 14 percent answered in the affirmative. (Cogan Exh. 2, p. 11-12).

Sebastian moves to enjoin Longs from selling Sebastian products bearing the collective marks. Sebastian argues that (1) it is likely to succeed on the merits because (a) its mark is a valid collective mark, (b) Longs' sale of these goods creates misrepresentations of affiliation and is likely to cause confusion, as evidenced by the consumer survey results, and (c) the first sale doctrine does not apply; (2) Longs' sales create irreparable harm to Sebastian's reputation; and (3) the balance of hardship weighs in Sebastian's favor.

III. DISCUSSION

A. *The Preliminary Injunction Standard*

A plaintiff seeking a preliminary injunction must show (1) the probable success on the merits and the possibility of irreparable injury or (2) serious questions

on the merits and a balance of hardship tipping sharply in its favor. *Miss World (UK), Ltd. v. Mrs. America Pageants, Inc.*, 856 F.2d 1445, 1448 (9th Cir. 1988). These are not two distinct tests but "the opposite ends of a single continuum in which the required showing of harm varies inversely with the required showing of meritoriousness." *Id.*

B. *Likelihood of Success on the Merits of Unfair Competition and Trademark Infringement Claims*

1. *Validity of the Collective Mark*

Longs argues that Sebastian's marks are invalid as collective marks because (1) collective marks must be owned by a collective entity not a corporation, (2) marks used by a collective on its own goods are not collective marks, (3) Sebastian's collective service mark does not cover members' provision of consultation services at issue here.

In this Court's view, Longs' arguments are unavailing. First, it appears that a collective mark need not be owned solely by the collective; rather, a corporation can own a collective mark. The Lanham Act defines a collective mark as a trademark used by members of a collective. 15 U.S.C. § 1127. In addition, § 1054 provides for the registration of collective marks "in the same manner . . . as are trademarks, by persons . . . exercising control over the use of the marks . . . except when used so as to represent falsely that the owner or a user thereof makes or sells the goods or performs the services" 15 U.S.C. § 1054. Thus, it appears that the Lanham Act directly addresses who may use but not who may own a collective mark.

Furthermore, the Trademark Manual of Examining Procedure ("TMEP"), a manual used by the examining board to determine whether a mark is valid, states that a

collective membership mark can be owned by "someone other than the collective organization whose members use the mark, and the owner itself might not be a collective organization. An example is a business corporation which forms a club for persons meeting certain qualifications and which, in forming the club, arranges to retain control of the group and of the mark used by the members of the group. The corporation which has retained control over the use of the mark is the owner of the mark, and is entitled to register the mark." TMEP § 1304.05. (citing *In re Stencel Aero Engineering Corp.*, 170 U.S.P.Q. 292 (TTAB 1971) (Aircraft ejection manufacturer can own a collective membership mark that it created for its club of successful users because the statutory definition requires only that mark be *used* by members; there is no limitation that only a collective can *own* mark)).

Moreover, the U.S. Trademark Office granted Sebastian as a corporation both Registrations and Notices of Allowances for the collective membership and service marks, respectively. (Kuchinski Decl. ¶ 4, 5). Registration is prima facie evidence of the validity of a mark. 15 U.S.C. § 1115(a).[1]

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[1] Longs argues that Sebastian cannot own a collective mark and cites *F.R. LePage Bakery v. Roush Bakery Products Co.*, 851 F.2d 351, 353 (Fed. Cir. 1988), *withdrawn, vacated and remanded*, 863 F.2d 43 (Fed. Cir. 1988), *vacated and modified*, 13 USPQ2d 1045 (TTAB 1989) in that regard. In that case, the Federal Circuit held that where a corporation is making and selling its wares under a trademark, it is not entitled to own a collective mark registration. *Accord* TMEP § 1302 ("a collective mark must be *owned by* a collective entity even though the mark is *used by* the members of the collective."); § 1303.01 ("a collective mark must be owned by a collective entity.")

In this Court's view, *Le Page* is distinguishable. *Le Page* involved the transfer of a collective mark to one of the members of the collective. Here, the Collective did not transfer ownership of the

(continued)

Second, as discussed in this Court's earlier order, dual use of a mark is permitted: a collective mark can be used both as a trademark or service mark by the collective as well as a collective service mark or membership mark by members of the collective.[2] McCarthy at § 19.34 [1] [b], TMEP § 1303.01. The key inquiry in determining whether a mark is being used as a collective mark or a traditional mark is who is using it. Here, the members of the collective "use" the mark by displaying and selling products that bear the mark identifying the seller both as a member of the collective and, correspondingly, as a salon professional who has received training and education in the use of Sebastian products. The fact that Sebastian itself applies the marks to the products and arguably also "uses" the marks does not

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(fn. continued)
mark to one of the salon members. Rather, as in *In re Stencel*, Sebastian as a corporate entity created the collective and owns the mark. Sebastian is not a member of the Collective. Moreover, this Court can think of no logical reason (nor, apparently, did the U.S. Trademark Office in registering the collective marks) why corporate niceties should dictate the validity of a collective mark. Notably, in addressing the validity of collective marks, the Lanham Act and relevant case law seem to focus on how a mark is used rather than who owns it.

[2] Previously, some courts applied the anti-use-by-owner rule to collective marks. According to that rule, if the owner of a collective mark, rather than the members, used the mark to identify its own goods or services the mark was not a "collective" mark, but a traditional trademark or service mark. McCarthy at § 19.34 [1] [b]. *See, e.g., Aloe Creme Laboratories, Inc. v. American Soc. for Aesthetic Plastic Surgery, Inc.*, 192 U.S.P.Q. 170, 173 (TTAB 1976).

Significantly, however, in 1988, the Trademark Law Revision Act made clear that the anti-use-by-owner rule does not apply to collective marks; consequently, a collective mark owner can make dual use out of the marks. A collective mark can be used in such a way as to be both a collective mark as well as a traditional trademark or service mark. McCarthy at § 19.34 [1] [b], [2], TMEP § 1303.01.

transmogrify the collective mark into a traditional trademark or service mark.

Moreover, although perhaps collective service marks and membership marks typically appear on placards and the like, the case law indicates that they can also appear on products themselves. *See Boise Cascade Corp. v. Mississippi Pine Mfrs. Assn.*, 164 U.S.P.Q. 364, 367 (TTAB 1969) and *Saks & Co. v. Snack Food Ass'n*, 12 U.S.P.Q.2d 1833, 1836 (TTAB 1989). Thus, it appears that the location of the mark does not determine its characterization as a collective mark; rather, the message conveyed to consumers by the mark is dispositive.

Third, Sebastian's service mark covers the services in question here. The Mark covers the provision to hairdressers of "educational services" in the use of Sebastian products. (Kuchinsky Decl., Exh. 3). In this Court's view, implicitly, a hairdresser who has received training and education in the use of Sebastian products would in turn necessarily bestow the benefits of this training on his or her customers. Thus, the service mark indicates that the member is trained and educated and therefore, by implication, will be able to instruct the customer as to the proper use of Sebastian products.

Accordingly, Sebastian has established a likelihood of success on the merits with regard to the validity of its collective marks.

B. *Misrepresentation and Likelihood of Confusion*

A defendant is liable for unfair competition if it uses in commence a "misleading representation" that is "likely to cause confusion" or to deceive as to affiliation, connection, or association. Lanham Act, 15 U.S.C. § 1125(a). Similarly, a defendant is liable for trademark infringement, which is one type of unfair competition, if it uses a registered mark that is "likely to cause

confusion," or mistake, or deception. Lanham Act, 15 U.S.C. § 1114(1), *Shakey's Inc. v. Colvalt*, 704 F.2d 426, 431 (9th Cir. 1993).

The general rule is that the unauthorized sale of goods bearing their true trademarks does not, by itself, constitute infringement. *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 593 (5th Cir. 1993). This is predicated on the notion that neither misrepresentations of fact nor consumer confusion ordinarily exist when a genuine mark bearing a true mark is sold. *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir.), *cert. denied*, 484 U.S. 851 (1987). In particular, the first sale doctrine provides:

> "Trademark law generally does not apply to the sale of genuine goods bearing a true mark even though such sale is without the mark owner's consent. Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark without incurring any trademark liability. The reason is that trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold." *Id.* (Citations omitted.)

However, when additional factors are present indicating the likelihood of confusion or deception, infringement will be found. For example, courts have found infringement where a reseller makes an affirmative misrepresentation, such as placing a plaintiff's trademark on an advertisement or on pamphlets, and there is a suggestion that the customer was confused or deceived into believing the seller is an "authorized" dealer or seller. 3A Callmann Unfair Competition Trademarks and Monopolies, § 21.13, fn. 6, p. 123-133 (citing *Trail*

Chevrolet, Inc. v. General Motors Corp., 381 F.2d 353 (5th Cir. 1967). *See also Bandag, Inc. v. Al Bolser's Tire Stores*, 750 F.2d 903 (Fed. Cir. 1984) and *Stormor, A Div. of Fuqua Industries v. Johnson*, 587 F.Supp. 275 (W.D. Mich. 1984).

In addition, courts have found infringement where a trademark owner dictates that sellers provide certain ancillary functions and where it is not obvious to the consumer that these functions have not been performed. For example, where quality control is critical and any defect or potential defect due to a reseller's failure to adhere to quality control standards is not readily observable, a trademarked product sold by an unauthorized seller is not considered a "genuine" product and therefore is likely to cause confusion or deception. *See, e.g., Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104 (4th Cir. 1991), *Adolph Coors Co. v. A. Genderson & Sons, Inc.*, 486 F.Supp. 131 (D. Colo. 1980).[3]

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[3] By contrast, where any purported shortcomings would be obvious to the customers, customers are not likely to be confused and, consequently, infringement will not be found. In *Matrix*, for example, Matrix argued that its hair care products were not genuine unless they were sold with accompanying consultative services. The Court rejected this argument and held that no customer shopping in the drugstore would be confused or deceived as to whether they were getting a cosmetologist's consultation. *Matrix*, 988 F.2d at 591. Nor, the Court held, would confusion exist as to sponsorship because the goods were manufactured and labelled by Matrix. *Id.* at 592. *See also H.L. Hayden Co. of N.Y., Inc. v. Siemens Medical Systems, Inc.*, 879 F.2d 1005 (2d Cir.1989) (Defendant's sale of plaintiff's dental equipment, sold through its catalog and without plaintiff's required installation, was nevertheless a "genuine" product, and customers would not likely be confused or deceived that the product did not include installation).

In short, the first sale doctrine is not to be applied by rote to resales of genuine products. Rather, its application is predicated on the absence of misrepresentations and likelihood of confusion. Thus, where evidence of those exist, courts refuse to apply the first sale doctrine and will find infringement even for the resale of genuine products bearing their true marks.

Significantly, however, although the primary purpose of the trademark law is to protect consumers from confusion and deception, this end must be accomplished consistent with free market objectives. *Intel Corp. v. Terabyte Intern., Inc.*, 6 F.3d 614, 615 (9th Cir. 1993).

Here, unlike *Matrix* and the other first sale doctrine cases, misrepresentations and likelihood of confusion are present. By selling products bearing the collective mark, Longs is arguably misrepresenting to consumers that it is affiliated with or authorized by Sebastian or the Collective. The survey results bear this out. In addition, apparently members of the Collective provide certain ancillary functions (namely, quality control, consultative services and charity contributions). The collective mark, more than a traditional trademark, indicates a closer connection to Sebastian and in turn could signal to customers the existence of these functions. Thus, Longs, by selling Sebastian products bearing the collective mark, is arguably misrepresenting that it provides these functions.

Consumer confusion is also likely. The survey results indicate that a substantial number of consumers mistakenly perceived that a drug store selling goods bearing the collective mark must be authorized by or affiliated with Sebastian or the Collective. Evidence of actual consumer confusion, though not required, certainly tends to establish the likelihood of confusion.

The fact that Sebastian, by virtue of its "mislabeling," is somehow responsible for any misrepresentations or confusion is not determinative. The trademark law is concerned primarily with protecting consumers from being confused. The trademark cases seem to look only to whether there is a likelihood of consumer confusion not to who is responsible for that confusion. For example, courts that apply the first sale doctrine and find no infringement base their holdings entirely on the fact that the resale of goods bearing true traditional trademarks does not create misrepresentations or likelihood of confusion. Notably, none of these courts mentions the fact that even had there been any misrepresentations or likelihood of confusion, no infringement would be found because the trademark owner was somehow responsible by virtue of its labeling the products. These courts focus solely on the absence of misrepresentations and likelihood of confusion.

In addition, other courts have refused to apply the first sale doctrine and instead have enjoined the resale of genuine goods even where the trademark owner has arguably 'mislabeled' the products. *See Clairol, Inc. v. Boston Discount Center of Berkeley*, 608 F.2d 1114 (6th Cir. 1979) (Manufacturer of hair coloring successfully sued retailers that sold professional use products to consumers for home use where professional products lacked warnings and instructions.) Thus, the trademark case law is entirely consistent with enjoining Longs resale.

Finally, finding infringement here is consistent with the free market principles. Refusing to apply the first sale doctrine and finding infringement here is entirely in line with antitrust law. Courts have held that a manufacturer may, consistent with federal antitrust laws, impose restraints on and refuse to deal with a retailer solely because the retailer's image is not consistent with the

product's prestige, image and quality. *Trans Sport, Inc. v. Starter Sportswear, Inc.*, 964 F.2d 186 (2d Cir. 1992). Thus, protecting one's image and ensuring that only appropriate retailers sell one's product are deemed to be valid business justifications in the antitrust arena.

Here, Sebastian has attempted to do just that: to create a certain cachet and high end image of its products. Accordingly, Sebastian only sells to salons that are members of the Collective and expressly refuses to sell to drug stores and other lower end retailers that it thinks will taint the image of its products. In this regard, Sebastian places its collective mark on its products in part to combat diversion to unauthorized retailers like drug stores. In this Court's view, enjoining Longs' resale is entirely consistent with the principles of antitrust law as evidenced by *Trans Sport.*

Accordingly, Sebastian has established that it is likely to succeed on the merits with regard to establishing a misrepresentation that is likely to cause consumer confusion.

C. *Irreparable Harm/Balance of Hardships*

Sebastian faces a real threat of irreparable harm and the balance of hardships tips sharply in its favor. As indicated in the survey, the collective mark arguably implies even more of a connection between the reseller and Sebastian than does a traditional trademark. Therefore, Sebastian's cachet is in even greater jeopardy. Longs is arguably perceived as a lesser, discount environment, particularly when contrasted to a tony salon setting.

In addition, there is evidence that Longs is selling defective products and exhibiting them in a disheveled manner. Moreover, as pointed out during oral argument, a number of survey respondents mistakenly believed that

a drug store selling products bearing the Sebastian collective mark is probably selling second-hand or damaged Sebastian products. This signals to consumers that Sebastian might have authorized the sale of inferior goods. In addition, at least one salon owner declared that he would consider terminating his membership in the Collective unless diversion to drug stores was stopped. Thus, Sebastian is in real jeopardy of losing members of the Collective, which, in turn, could threaten its ability to maintain the high end image of its products.[4]

By contrast, Longs faces a relatively minor harm. Longs will lose the lost profits on future sales of Sebastian products. However, Longs sells numerous other brands of hair care products. Thus, its very existence as a retailer is not in jeopardy. In addition, Longs' sells Sebastian only on a sporadic basis. Thus it does not have a reputation as a reliable source of Sebastian products to protect.

Accordingly, Sebastian faces the possibility of irreparable injury, and the balance of hardship tips sharply in its favor.

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[4] Longs argues that Sebastian delayed in bringing this action, which in turn negates Sebastian's contentions of irreparable injury. Longs' argument is without merit. Admittedly, Sebastian has been on notice of Longs' sales since 1987 and only now seeks injunctive relief. However, Sebastian's Collective was not founded until June 1992. Sebastian did not attempt to utilize the trademark avenue until after it registered its collective mark, placed the mark on its goods, and in April 14, 1993, first learned that the defendant was selling Sebastian product bearing the collective mark. Sebastian then filed suit on May 18, 1993. Sebastian did not, therefore, sleep on its rights.

IV. CONCLUSION

For the foregoing reasons, Sebastian's motion for Preliminary Injunction is GRANTED. This Court Orders that, pending a trial on the merits and determination in this action,

(1) defendant and defendant's officers, directors, employees, agents, servants, successors, and assigns, as well as those persons in active concert or participation with them who receive notice of the Order, be enjoined from infringing the collective marks of plaintiff, or from otherwise engaging in unfair competition with plaintiff, in any manner, including but not limited to:

(a) displaying, distributing and/or offering for sale to the public, and/or purchasing or otherwise acquiring for the purpose of displaying, distributing and/or offering for sale to the public, Sebastian hair care and beauty products that bear one or more of plaintiff's Collective Marks, namely, Sebastian Collective Salon Member and Sebastian Collective Salon Member & Design; and/or

(b) engaging in any conduct tending falsely to represent or likely to confuse, mislead or deceive purchasers, defendant's customers or member of the public into thinking that defendant is or is affiliated with plaintiff and/or the Collective, that defendant's services are offered by or are otherwise the same nature as those offered by plaintiff and/or the members of the Collective, and that defendant's offering of services, if any, has been sponsored, approved, or licensed by plaintiff or the Collective.

(2) Sebastian shall post a bond in the amount of $250,000 for the payment of such costs and damages as may be incurred or suffered if Longs is found to have bene wrongfully enjoined or restrained.

(3) This Order shall be stayed for 90 days. Unless the Court of Appeals orders otherwise, this injunction will take effect after 90 days from the date of this Order.

(4) During this 90-day stay, Longs may attempt to sell inventory it currently possesses of Sebastian hair care and beauty products that bear one or more of plaintiff's Collective Marks;

(5) Within 30 days of the last of these sales, Longs shall submit to the Court an accounting of any sales made and corresponding profits earned from these sales.

IT IS SO ORDERED.

March 11, 1994

/s/ William D. Keller
William D. Keller, Judge
United States District Court

LANHAM ACT [15 U.S.C.]

§ 1054 Collective marks and certification marks registrable [Section 4]

Subject to the provisions relating to the registration of trademarks, so far as they are applicable, collective and certification marks, including indications of regional origin, shall be registrable under this act, in the same manner and with the same effect as are trademarks, by persons, and nations, States, municipalities, and the like, exercising legitimate control over the use of the marks sought to be registered, even though not possessing an industrial or commercial establishment, and when registered they shall be entitled to the protection provided herein in the case of trademarks, except in the case of certification marks when used so as to represent falsely that the owner or a user thereof makes or sells the goods or performs the services on or in connection with which such mark is used. Applications and procedure under this section shall conform as nearly as practicable to those prescribed for the registration of trademarks.

(July 5, 1946, ch. 540, title I, §4, 60 Stat. 429; Nov. 16, 1988, Pub. L. 100-667, §106, 102 Stat. 3938.)

§ 1114 Remedies; infringement; innocent infringement by printers and publishers [Section 32]

(1) Any person who shall, without the consent of the registrant —

> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or
> (b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive;

shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) hereof, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

As used in this subsection, the term "any person" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a

State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this Act in the same manner and to the same extent as any nongovernmental entity.

§ 1125 False designations of origin and false descriptions forbidden [Section 43]

(a)(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which —

> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(July 5, 1946, ch. 540, title VIII, §43, 60 Stat. 441; Nov. 16, 1988, Pub. L. 100-667, §132, 102 Stat. 3946; Oct. 27, 1992, Pub. L. 102-542, §3, 106 Stat. 3568.)

Supreme Court, U.S.
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No. 95-237

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1995

SEBASTIAN INTERNATIONAL, INC.,
Petitioner,

v.

LONGS DRUG STORES CORPORATION,
Respondent.

On Petition for a Writ of Certiorari
to the United States Court of Appeals
for the Ninth Circuit

AMICUS CURIAE BRIEF OF THE COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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TABLE OF CONTENTS

Page

INTEREST OF AMICUS CURIAE 1

STATEMENT 2

SUMMARY OF ARGUMENT 5

ARGUMENT 6

I. THE NINTH CIRCUIT'S EXPANSIVE INTERPRETATION OF THE FIRST SALE DOCTRINE CONFLICTS WITH THE PLAIN LANGUAGE OF THE LANHAM ACT AND IS IN CONFLICT WITH DECISIONS IN OTHER CIRCUITS 6

II. THE COMPETITION POLICY RATIONALE OF THE DECISION BELOW CONFLICTS WITH ANTITRUST DECISIONS OF THIS COURT AND OF OTHER COURTS OF APPEAL 12

III. A PROPER DECISION OF THE QUESTION OF FEDERAL LAW PRESENTED IS IMPORTANT . 16

CONCLUSION 19

TABLE OF AUTHORITIES

Cases **Page(s)**

Adolph Coors Co. v. *A. Genderson & Sons, Inc.*,
486 F. Supp. 131 (D. Colo. 1980) 10, 17

Assam Drug Co. v. *Miller Brewing Co.*,
798 F.2d 311 (8th Cir. 1986) 14

Bandag, Inc. v. *Al Bolser's Tire Stores, Inc.*,
750 F.2d 903 (Fed. Cir. 1984) 8

Bill Blass, Ltd. v. *SAZ Corp.*,
751 F.2d 152 (3d Cir. 1984) 9

Boise Cascade Corp. v. *Mississippi Pine Manufacturers Association*, 164 U.S.P.Q. 364 (TTAB 1969) 11

Champion Spark Plug Co. v. *Sanders*,
331 U.S. 125 (1947) 7

Clairol, Inc. v. *Boston Discount Center of Berkeley*,
608 F.2d 1114 (6th Cir. 1979) 15

Continental T.V., Inc. v. *GTE Sylvania Inc.*,
433 U.S. 36 (1977) 13, 14, 15

Exxon Corp. v. *Texas Motor Exchange, Inc.*,
628 F.2d 500 (5th Cir. 1980) 11

Table of Authorities-Continued

Page(s)

H.L. Hayden Co. of New York v. *Siemens Medical Systems*,
879 F.2d 1005 (2d Cir. 1989) 8

Matrix Essentials, Inc. v. *Emporium Drug Mart, Inc.*,
988 F.2d 587 (5th Cir. 1993) 8, 14

Mutual of Omaha Insurance Co. v. *Nova*,
836 F.2d 397 (8th Cir. 1987), *cert. denied*,
488 U.S. 933 (1988) 11

Prestonettes v. *Coty*,
264 U.S. 359 (1924) 7

Red Diamond Supply, Inc. v. *Liquid Carbonic Corp.*,
637 F.2d 1001 (5th Cir.), *cert. denied*, 454 U.S.
827 (1981) 14

Saks & Co. v. *Snack Food Association*,
12 U.S.P.Q. 2d 1833 (TTAB 1989) 12

Sebastian Int'l, Inc. v. *Longs Drug Stores Corp.*,
30 U.S.P.Q. 2d 1785 (C.D. Cal. 1994) 3, 11

Sebastian Int'l, Inc. v. *Longs Drug Stores Corp.*,
53 F.3d 1073 (9th Cir. 1995) 4, 7, 13, 16

Sports Center, Inc. v. *Riddell, Inc.*,
673 F.2d 786 (5th Cir. 1982) 15

Table of Authorities-Continued

Page(s)

Stormer, Division of Fuqua Industries, Inc. v. *Johnson*,
587 F. Supp. 275 (W.D. Mich. 1984) 10

Trans Sport, Inc. v. *Starter Sportswear, Inc.*,
964 F.2d 186 (2d Cir. 1992) 14

United States v. *Arnold, Schwinn & Co.*,
388 U.S. 365 (1967) 13

Volkswagenwerk A.G. v. *Smith*,
471 F. Supp. 385 (D.N.M. 1979) 10

Statutes

Lanham Act sec. 4, 15 U.S.C. § 1054 . . . . . 1, 2, 11

Lanham Act sec. 32, 15 U.S.C. § 1114(1) 1, 5, 6

Lanham Act sec. 43(a), 15 U.S.C. § 1125(a) . . . 1, 5, 6

Lanham Act sec. 45, 15 U.S.C. § 1127 11

Table of Authorities-Continued

Page(s)

Miscellaneous

Antitrust Guidelines for the Licensing of Intellectual Property, 68 ANTITRUST & TRADE REG. REP. (BNA) No. 1708 (Special Supp.) (Apr. 13, 1995) . 15

R. Posner, *Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions*, 75 COLUM. L. REV. 282 (1975) 14

Sup. Ct. R. 10.1(c) 13

INTEREST OF AMICUS CURIAE

The Coalition To Preserve The Integrity Of American Trademarks ("COPIAT") is a trade association consisting of approximately 80 companies and associations representing a total of 12,000 businesses. COPIAT is dedicated to protecting the value of trademarks and other intellectual property rights in American industries by combatting all types of intellectual property fraud. In particular, COPIAT has worked for legislative, judicial, and regulatory changes designed to prevent the business injury to its members resulting from the domestic and international diversion of goods.

A number of COPIAT's members manufacture or distribute personal care products that are intended for sale to consumers only through authorized distributors. COPIAT has a strong interest in assuring that manufacturers and authorized distributors of personal care products who invest in special training in the application of those products have available the full protection from infringement provided by Congress in the Lanham Act. In particular, if such a manufacturer and its authorized distributors adopt and obtain a federal registration for a "collective membership mark" to identify themselves, as provided for in the Lanham Act, 15 U.S.C. § 1054, and there is evidence that use of that collective mark by a non-member has created consumer misapprehension that it, too, is a member, COPIAT and its members have a strong interest in the enforcement of the plain words of the Lanham Act to enjoin that infringement. *See* 15 U.S.C. §§ 1114(1), 1125(a).

Because the Ninth Circuit in the decision below has denied such protection to the collective membership mark used by a manufacturer and its distributors, COPIAT urges that the petition for certiorari of Sebastian International, Inc., be granted and the decision below reversed. Letters from both parties indicating consent to file this *amicus curiae* brief are on file with the Clerk.

STATEMENT

As described more fully in its Petition, Sebastian International Inc. ("Sebastian") manufacturers and distributes professional hair care products such as permanents, colorants and shampoos, and has chosen to market its products only through salons that employ licensed cosmetologists who are trained in the proper application and selection of Sebastian products. In 1992 it formed "The Sebastian Collective Membership Program" (the "Collective"), whose members consist only of professional hair salons and distributors that agree to be trained in the proper use and selection of Sebastian hair care products, and it holds product seminars and educational classes for members of the Collective about such proper use and selection.

In 1993, pursuant to Section 4 of the Lanham Act, 15 U.S.C. § 1054, Sebastian registered with the U.S. Patent and Trademark Office the collective membership marks[1/] SEBASTIAN COLLECTIVE SALON MEMBER and SEBASTIAN COLLECTIVE SALON MEMBER and Design, for indicating "membership in [Sebastian's] business club of entities authorized to distribute, promote, sell and teach how to use [Sebastian's] beauty care products."[2/] These collective

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1/ The Lanham Act defines a "collective mark" as "a trademark or service mark used by the members of a cooperative, an association, or other collective group or organization," including "marks indicating membership in a union, an association, or other organization," and provides for the registration of collective marks "in the same manner and with the same effect as are trademarks, by persons . . . exercising legitimate control over the use of the marks." 15 U.S.C. §§ 1054, 1127.

2/ In 1994, during the pendency of the appeal of the District Court's order preliminarily enjoining Respondent Longs Drug Stores Corp. from selling Sebastian's products, Sebastian also registered with the U.S. Patent

(continued...)

membership marks appear on all Sebastian hair care products, as well as on posters, signage and various advertisements displayed by members of the Collective.

Respondent Longs Drug Stores Corp. ("Longs") operates general merchandise and drug stores. Its employees have not received the training and provide none of the services in which members of Sebastian's Collective have invested. Longs purchases Sebastian hair care products from unknown diverters and resells those products bearing Sebastian's collective membership marks even though it is not a member of the Collective. In 1993, Sebastian sued Longs for trademark infringement and unfair competition under the Lanham Act.

The District Court preliminarily enjoined Longs from continuing to sell products bearing a collective membership mark identifying a collective of which it was not a member and whose characteristic training it has not received. 30 U.S.P.Q. 2d 1785 (C.D. Cal. 1994). In so doing, the District Court held that the judicially-created "first sale" doctrine does not shield a reseller from liability under the "likelihood of confusion" standard provided in the Lanham Act when the reseller uses a collective membership mark in such a way as to create a likelihood of confusion as to the reseller's association with the collective membership program. The court determined that Sebastian's collective membership registrations were valid and that based on survey and other evidence, there was a likelihood of confusion that consumers

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[2/](...continued)
and Trademark Office the mark SEBASTIAN COLLECTIVE SALON MEMBER as a collective service mark for educational and distributorship services performed by members of Sebastian's business club. These services include workshops and one-on-one consultations with hairdressers regarding health and beauty and the use of various hair care products.

would believe, erroneously, that a store selling Sebastian products bearing the collective membership mark was affiliated with the Collective.

In a *per curiam* opinion, the Ninth Circuit reversed the District Court's order. Applying the so-called first sale doctrine, the Court of Appeals held that Longs' resale of "genuine" Sebastian products bearing Sebastian's collective membership marks does not violate the Lanham Act. 53 F.3d 1073, 1077 (9th Cir. 1995). In so holding, it ruled that the "'first sale' rule is not rendered inapplicable merely because consumers erroneously believe the reseller is affiliated with or authorized by the producer." *Id.* at 1076.

There was a separate concurrence based on the erroneous proposition, inconsistent with the Patent and Trademark Office's action in registering Sebastian's marks, that the registrations themselves are not valid. This proposition, not joined in by the panel majority, is *not* the basis of the panel's decision and is not addressed in this brief.

SUMMARY OF ARGUMENT

The Ninth Circuit has applied the judicially-created "first sale" doctrine in direct conflict with the plain language of the Lanham Act and decisions of other courts of appeal that have properly applied it. The Lanham Act prohibits use of a mark in such a way as to create a "likelihood of confusion" as to source or sponsorship, association or affiliation. 15 U.S.C. §§ 1114(1), 1125(a). There is no exemption in the Lanham Act for unauthorized use of a mark that results in a likelihood of confusion, and the Ninth Circuit's expansion of the first sale doctrine to provide such an exception is unwarranted and unsupported by the plain language of the statute or its legislative history.

In thwarting Sebastian's attempt to confine its products to an identified group of distributors that have undergone training and who provide important consumer services, the Ninth Circuit held that federal trademark law is subordinate to a discredited and abandoned doctrine of antitrust law. Where inter-brand competition is intense, as it is among personal care products, no existing antitrust principle is contravened by creation of a collective trademark that enables consumers to identify authorized distributors who have undergone training and who provide specialized services in conjunction with the sale of a particular manufacturer's products.

The Ninth Circuit's decision is significantly detrimental to the *amicus curiae* and the American consumer. It undermines the ability of a manufacturer to ensure that its products are distributed in a way that is consistent with the product's quality and image, and to select and identify only those distributors who are willing to make a desired investment. By so doing, the court's ruling tends to stifle inter-brand competition in the provision of personal care products by making it impossible for providers of such

products who invest in training and service to identify themselves by a collective mark without being confused with free riders who have not made such investments.

ARGUMENT

I. THE NINTH CIRCUIT'S EXPANSIVE INTERPRETATION OF THE FIRST SALE DOCTRINE CONFLICTS WITH THE PLAIN LANGUAGE OF THE LANHAM ACT AND IS IN CONFLICT WITH DECISIONS IN OTHER CIRCUITS.

Section 32 of the Lanham Act provides that anyone who, without the consent of the owner of a registered mark, uses in commerce a reproduction, counterfeit, copy, or colorable imitation of the registered mark in such a way that "is likely to cause confusion, or to cause mistake, or to deceive," is liable for trademark infringement. 15 U.S.C. § 1114(1).

Similarly, Section 43(a) of the Lanham Act provides that anyone who uses in commerce any false or misleading description of fact, or false or misleading representation of fact which "is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship or approval of his or her goods, services or commercial activities by another person," is liable for unfair competition. 15 U.S.C. § 1125(a)(1).

The Lanham Act provides no statutory "first sale" exception. Nor is there any discussion of the "first sale" exception in the House and Senate Reports on the Trademark Act of 1946. Similarly, a review of the legislative history of the Trademark Law Revision Act of 1988, which substantially amended the Trademark Act of 1946, disclosed no reference

to the "first sale" exception, let alone the Ninth Circuit's expansive interpretation of the doctrine.

Citing *Prestonettes* v. *Coty*, 264 U.S. 359 (1924), the Ninth Circuit stated that "with certain well defined exceptions, the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product." 53 F.3d at 1074. The Ninth Circuit, however, failed to mention that those "well-defined exceptions" recognized by this Court and other courts apply when a reseller's use of another's mark results in a likelihood of consumer confusion, as was the case here.

The landmark decision on a trademark owner's control of its trademark after a "first sale" has occurred is this Court's decision in *Prestonettes*. In that case, the Court held that a repackager or rebottler of "genuine" goods may use the original manufacturer's trademark on the labels for repackaged or rebottled goods *only* if purchasers are *not* deceived as to what they are buying. The Court reinstated the district court decree which required the repackager or rebottler to follow stringent labeling requirements designed to avoid confusion by buyers as to what had been done to the original manufacturer's trademarked products. As Justice Holmes observed, "[w]hen the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth." 264 U.S. at 368.

Similarly, in *Champion Spark Plug Co.* v. *Sanders*, 331 U.S. 125 (1947), this Court held that a person who repairs or reconditions a trademarked product can use the manufacturer's trademark only if he fully discloses what has been done to the goods so that buyers will not be confused as to the used nature of the goods or as to any connection or sponsorship by the original manufacturer. The Court held that compliance with the appellate court's decree which required all repaired or

reconditioned spark plugs to be so labeled and a legend on all cartons, containers, and advertising that made it clear that the plugs were used or reconditioned, constituted full disclosure.

As *Prestonettes* and *Champion* make clear, the first sale doctrine applies only in the absence of a likelihood of consumer confusion. Consistent with these landmark decisions from this Court, the lower courts have shielded a reseller from liability for trademark infringement *only* when the reseller's use of the manufacturer's mark did not result in a likelihood of confusing the public as to affiliation with, sponsorship by, or approval or authorization of, the trademark owner. For example, in *Matrix Essentials, Inc.* v. *Emporium Drug Mart, Inc.*, 988 F.2d 587 (5th Cir. 1993), relied on below, the Court of Appeals had held explicitly that in the circumstances of that case unauthorized resale of hair products bearing plaintiff's trademark had *not* resulted in any likelihood of confusion. Similarly, in *H.L. Hayden Co. of New York* v. *Siemens Medical Systems*, 879 F.2d 1005, 1023 (2d Cir. 1989), unauthorized resale of dental equipment bearing plaintiff's trademark was found not to have resulted in any likelihood of confusion because customers were aware that what they purchase from defendant is only the manufactured product and not its installation.

Where, however, a reseller uses another's mark in such a way as to result in a likelihood of confusion among consumers as to affiliation, sponsorship or association, the reseller has been found to be liable under the Lanham Act. For example, in *Bandag, Inc.* v. *Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 911 (Fed. Cir. 1984), sale of genuine BANDAG recapped tires by a distributor who was not an authorized BANDAG franchisee, but whose use of the BANDAG mark was found likely to suggest to prospective customers that defendant was, in fact, part of the plaintiff's franchise organization, was found to violate the Lanham Act.

Given that a likelihood of confusion was found to exist, the fact that the products sold by the defendant were "genuine" provided no defense.

The right of a trademark owner to prevent confusion, even where goods sold by an infringer are "genuine," has also been recognized by the Third Circuit. In *Bill Blass, Ltd.* v. *SAZ Corp.*, 751 F.2d 152 (3d Cir. 1984), a preliminary injunction granted the trademark owner, Bill Blass, Ltd., barring an unauthorized outlet store from selling "authentic" but out of date BILL BLASS clothing which it obtained when it purchased the assets of an authorized retailer, was affirmed because the sale of BILL BLASS goods by the unauthorized outlet created the misapprehension that it was a licensee of Bill Blass. The fact that the goods in question had been "first sold" by Bill Blass or that they were "genuine" did not provide a defense because of the consumer confusion such sales were found likely to create. In considering the public interest, the court observed:

> "Congress has in the Trademark Act made the policy determination that the public interest is advanced by designation of property interests in trademarks. Thus the public interest is advanced by preventing the erosion of the values of such interests. The only countervailing public interest advanced by [defendant] is that of purchasing a coat at a discount from a discount retailer. Under the terms of the injunction, . . . [defendant] is free to sell such coats . . . so long as the label is removed. It is not free to exploit the BILL BLASS trademark for which it has no license . . ."

Id. at 156.

The federal district courts have also applied the "likelihood of confusion" standard undiminished by any "first sale" or "genuine goods" exceptions. For example, in *Stormer, Div. of Fuqua Industries, Inc.* v. *Johnson*, 587 F. Supp. 275 (W.D. Mich. 1984), a distributor that sold genuine STORMER agricultural equipment was held to have violated the Lanham Act when it "used plaintiff's trademarks in a manner which is likely to cause the public to believe that defendants are part of Stormer's authorized sales network." *Id.* at 279. Similarly, in *Volkswagenwerk A.G.* v. *Smith*, 471 F. Supp. 385 (D.N.M. 1979), a garage specializing in the repair of Volkswagens was enjoined from using the VOLKSWAGEN mark in such a manner as to confuse members of the public into believing it was an authorized Volkswagen repair shop subject to the quality control and training requirements established by the trademark owner. And in *Adolph Coors Co.* v. *A. Genderson & Sons, Inc.*, 486 F.Supp 131 (D. Colo. 1980), a beer distributor not authorized by the owner of the COORS trademark to carry that brand, and which did not keep the beer refrigerated as required by Coors of its authorized distributors, was enjoined from continuing to sell "genuine" COORS beer because by doing so it was likely to confuse consumers into believing that the beer it sold was "of the same high quality and freshness as the beer distributed by authorized distributors . . ." *Id.* at 134.

In this case, Sebastian presented the District Court with compelling evidence that consumers are likely to be confused as to whether resellers of Sebastian products bearing the collective membership marks are affiliated with the Collective and subject to its standards. A survey commissioned by Sebastian showed that 40% of consumers believe that a drug store would have to be authorized to sell Sebastian products bearing the collective membership marks, and that 14% believe that a drug store such as Longs that carries Sebastian products bearing the Sebastian collective mark would be

affiliated with the Collective. The District Court properly concluded that such substantial evidence of actual confusion, "although not required, certainly tends to establish the likelihood of confusion." 30 U.S.P.Q. 2d at 1790.[3/]

Notwithstanding such evidence of likelihood of confusion, the Ninth Circuit refused to apply the plain language of the Lanham Act to Longs' infringement. In conflict with the Federal Circuit's holding in *Bandag*, that of the Third Circuit in *Bill Blass*, and unlike the Fifth Circuit's decision in *Matrix*, where no confusion was found to have occurred, the Court of Appeals expanded the judge-made first sale doctrine to supersede the statutory protections provided by the Lanham Act even though confusion was recognized to be likely.

Although it disturbed the Ninth Circuit that Sebastian displayed the collective membership mark on its product packaging, 53 F.3d at 1077, that fact is irrelevant. The Lanham Act gives manufacturers like Sebastian the explicit right to use a collective membership mark to designate membership in an organization. Sections 4, 45, 15 U.S.C. §§ 1054, 1127. Whether that identifying mark appears on a window decal or sign, in an advertisement, or on a product bottle is statutorily beside the point. *See, e.g., Boise Cascade Corp.* v. *Mississippi Pine Manufacturers Association*, 164 U.S.P.Q. 364, 367 (TTAB 1969); *Saks & Co.* v. *Snack Food Association*, 12 U.S.P.Q. 2d 1833, 1836 (TTAB 1989).

[3/] *See, e.g., Exxon Corp.* v. *Texas Motor Exchange, Inc.*, 628 F.2d 500 (5th Cir. 1980) (survey showing 15 percent of respondents associated defendant's TAXON auto repair service mark with plaintiff's EXXON gasoline mark constitutes strong evidence indicating a likelihood of confusion); *Mutual of Omaha Insurance Co.* v. *Nova*, 836 F.2d 397 (8th Cir. 1987), *cert. denied*, 488 U.S. 933 (1988) (results of between 10% and 12% of confusion as to whether senior user "goes along" with defendant's parody of T-shirts support finding of infringement).

The collective membership marks displayed on Sebastian's hair care products properly denote membership in the Collective and signify to potential purchasers that the entity selling the products is a member of the Collective and has made the investment in training and service sought to be differentiated by the mark. By selling Sebastian products bearing Sebastian's collective marks, Longs is misrepresenting that it is part of or affiliated with the Collective, has received the same training and provides the same service. Accordingly, by interpreting the first sale doctrine as shielding Longs from liability for infringement and unfair competition provided by the plain language of the Lanham Act, the Court of Appeals failed to properly apply the statute and placed its own application of the statute in conflict with that of other courts of appeal.

II. THE COMPETITION POLICY RATIONALE OF THE DECISION BELOW CONFLICTS WITH ANTITRUST DECISIONS OF THIS COURT AND OF OTHER COURTS OF APPEAL.

As clearly expressed in its opinion, the Ninth Circuit was more concerned with the prospect that a manufacturer might use a collective membership mark as a vehicle to control the downstream sale of its products than with the plain language of the Lanham Act. 53 F.3d at 1077 & n.9. In that respect, the Court of Appeals' decision constitutes an effort to resurrect an antitrust doctrine expressly rejected by this Court in the guise of a judicially-created exception to the Lanham Act.

The Court of Appeals said that it had carved out a first sale exception to the "likely to cause confusion" standard codified by Congress because of a felt need to provide an "accommodation between strong and conflicting forces." 53 F.3d at 1075. It saw itself as balancing the "legitimate

purposes of trademark law—the producer gains the good will associated with the quality of its product, and the consumer gets exactly what the consumer bargains for" against a presumed "strong" federal policy to preserve "an area of competition by limiting the producer's power to control the resale of its product." *Id.* By "accommodating" the plain language of a federal statute to a judge-made competition policy already repudiated by this Court, the Ninth Circuit "decided a federal question in a way that conflicts both with applicable decisions of this Court" (Sup. Ct. Rule 10.1(c)) and "with the decision of another United States Court of Appeals on the same matter." *Id.*, Rule 10.1(a).

In *Continental T.V., Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36 (1977), this Court reversed *United States* v. *Arnold, Schwinn & Co.*, 388 U.S. 365 (1967), and held that it is not presumptively anticompetitive or unlawful for a manufacturer to limit and restrict the distributors and retailers permitted to resell its products. It was recognized in *GTE Sylvania* that such restrictions on so-called "intrabrand competition" may have an important positive impact on competition among different brands. Where, as here, there is no evidence that competition among different brands is anything but highly fragmented and vigorous,

> "new manufacturers . . . can use [such] restrictions in order to induce competent and aggressive retailers to make the kind of investment of capital and labor that is often required in the distribution of products unknown to the consumer[, and] [e]stablished manufacturers can use them to induce retailers to engage in promotional activities or to provide service and repair facilities necessary to the efficient marketing of their products. . . . The availability and quality of such services affect a manufacturer's goodwill and the competitiveness of his product.

> Because of market imperfections such as the so-called 'free rider' effect, these services might not be provided by retailers in a purely competitive situation, despite the fact that each retailer's benefit would be greater if all provided the services than if none did."

Id. at 55, citing R. Posner, *Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions*, 75 Colum. L. Rev. 282, 285 (1975).

In this case, the supposed countervailing competition policy put forward by the majority below as its justification for refusing to implement the statutory "likely to cause confusion" standard is precisely the same policy, articulated by one of the same judges, which this Court expressly rejected in *GTE Sylvania*. *See* 433 U.S. at 53, n.21 (discussing "Judge Browning's interpretation of *Schwinn*"). It is also a policy and antitrust legal standard expressly rejected by the Court of Appeals for the Fifth Circuit in *Matrix Essentials, Inc.* v. *Emporium Drug Mart, Inc.*, 988 F.2d 587, 593-94 (5th Cir. 1993), in which the Fifth Circuit affirmed entry of summary judgment dismissing a claim that Matrix had violated the antitrust laws by seeking to restrict distribution of its hair care products to authorized hair salons. Where there is vigorous competition among brands, claims that restrictions on resale violate competition policy are defective as a matter of law. *Id. See also, Trans Sport, Inc.* v. *Starter Sportswear, Inc.*, 964 F.2d 186, 190-91 (2d Cir. 1992) (affirming summary judgment dismissing antitrust claim); *Assam Drug Co.* v. *Miller Brewing Co.*, 798 F.2d 311, 316-19 (8th Cir. 1986) (same); *Red Diamond Supply, Inc.* v. *Liquid Carbonic Corp.*, 637 F.2d 1001, 1004-07 (5th Cir.), *cert. denied*, 454 U.S. 827 (1981) (affirming judgment n.o.v.); *Sports Center, Inc.* v. *Riddell, Inc.*, 673 F.2d 786, 791 (5th Cir. 1982) (holding that,

absent market power, "vertical restrictions on product distribution are permissible and even desirable"); *Clairol, Inc.* v. *Boston Discount Center of Berkeley*, 608 F.2d 1114, 1125 (6th Cir. 1979) (noting that "nothing in the antitrust laws . . . compels a manufacturer to produce and package products so that they are wholly suitable for a market in which it does not intend them to be used . . .").

By presupposing and "accommodating" a non-existent federal competition policy in favor of protecting free riders, the majority below has stood existing antitrust policy on its head. As recently articulated by the federal agencies responsible for enforcing federal competition policy (addressing the related subject of exclusive licenses):

> "[Such limitations] may serve procompetitive ends by allowing the licensor to exploit its property as efficiently and effectively as possible . . . [V]arious forms of exclusivity can be used to give . . . an incentive to invest in the commercialization and distribution of products . . . by protecting . . . *against* free-riding on the licensee's investments . . . ."

Antitrust Guidelines for the Licensing of Intellectual Property, 68 ANTITRUST & TRADE REG. REP. (BNA) No. 1708 (Special Supp.) at S-4 (April 13, 1995) (emphasis added). *Accord*, *GTE Sylvania*, 343 U.S. at 55 (referring to "free riders" as a "market imperfection").

Here, Sebastian and the distributors identified by its collective service marks have utilized those marks to facilitate consumer identification of entities that have made an investment in learning how to safely and effectively use and sell Sebastian's hair care products. The Ninth Circuit did not dispute the trial court's finding that "consumers erroneously

believe the [unauthorized] reseller is affiliated with or authorized by the producer." 53 F.3d at 1076. By holding that, notwithstanding such acknowledged consumer confusion, there is such a "strong" federal policy in favor of protecting free riders as to preclude enforcement of the plain language of the Lanham Act, the Court of Appeals "decided a federal question in a way that conflicts with applicable decisions of this Court," and created a conflict with decisions of other Courts of Appeal.

III. A PROPER DECISION OF THE QUESTION OF FEDERAL LAW PRESENTED IS IMPORTANT.

The Court of Appeals' reliance on a discredited antitrust doctrine to create a judge-made obstacle to enforcement of a federally registered collective mark creates a serious obstacle to an important form of competition. The effect of the decision below, as applied to similarly situated suppliers of personal care products and services, is to make it substantially more difficult for retailers who would otherwise choose to invest time, money and effort in learning how to properly apply and service personal care products to efficiently identify themselves to the public and differentiate themselves from mass marketers who would free ride on their investment.

Trademarks and service marks perform the important function of enabling time-constrained consumers to quickly and correctly identify products and services that provide understood quality, performance and service characteristics. Such marks also facilitate competition by enabling providers of unique products and services to establish an identity with consumers attracted to the particular products and/or services they provide.

Marks that have a service component are, in this respect, different from trademarks identifying solely a physical

product. Significantly, such a mark identifies whether the provider of a combination of products and service has received the training and conforms to the uniform practices and procedures identified by a particular mark.

In contrast to marks identifying only physical goods, marks associated with a service component cannot be "diverted" to an unauthorized and untrained provider without creating consumer confusion and undermining the service identification function of the mark. If, hypothetically, a motel that is not a genuine HOLIDAY INN were to use bars of soap, containers of shampoo and towels bearing the name HOLIDAY INN, that would constitute an infringement of the HOLIDAY INN mark whether or not the bars of soap, shampoo or towels had been sold out the back door by an unauthorized HOLIDAY INN and were, therefore, in that limited sense, "genuine" goods. The owner of a federal registration under the Lanham Act has an enforceable right to market a combination of products and services in a manner that permits consumers to expect to get its particular offering every time its particular mark is observed—notwithstanding that enforcement of that right limits the mark's use only to "authorized" users. *See, e.g., Bandag, Inc.*; *Bill Blass Ltd.*; *Stormer*; *Volkswagenwerk*; *Adolph Coors Co., supra*.

The Court of Appeals below failed to comprehend that the collective marks sought to be enforced by Sebastian have many service attributes. As described in the registration themselves, Sebastian's collective marks identify hair salons trained and authorized to teach how to use Sebastian beauty care products. They are not simply trademarks connoting no more than particular physical goods. In that sense, the collective mark SEBASTIAN COLLECTION SALON MEMBER is no different in principal than HOLIDAY INN, BANDAG, BILL BLASS, STORMER, VOLKSWAGEN and

COORS, and it should be protected from unauthorized and confusing use in the same manner.

The Ninth Circuit's failure to provide such enforcement has implications that go well beyond this case. Providers of products and services that are not aimed at a mass market face severe obstacles to achieving retail distribution and consumer differentiation of their products and services. In seeking to compete with mass marketers, they need to be able to protect their investment in training and service and to establish an identifying mark that assures consumers looking for their unique product/service combination that every time the mark is seen that is what they'll get. As exemplified by the case described above, that exclusivity of use is provided to users of other marks having an important service component, and there is no reason in law or economics why Sebastian's collective mark should not be provided the same protection.

This case, then, provides this Court with a clear-cut opportunity to advance the job begun in *GTE Sylvania* of ridding federal regulatory law of judge-made obstacles to effective inter-brand competition. To let the decision below stand will stifle an important form of personal service competition in a world where provision of knowledgeable personal service to busy people provides an increasingly important consumer benefit.

CONCLUSION

For the foregoing reasons, this Court should grant Sebastian's petition and issue a writ of certiorari to the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1995

SEBASTIAN INTERNATIONAL, INC.,

Petitioner,

v.

LONGS DRUG STORES CORPORATION,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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PARTIES TO THE PROCEEDINGS

Respondent does not dispute the description of the parties set forth in the Petition.

Respondent has no subsidiaries which are not wholly owned. Respondent has no parent.

TABLE OF CONTENTS

Page

STATEMENT OF THE CASE 1

MISSTATEMENTS IN THE PETITION 5

REASONS FOR DENYING THE PETITION 8

I. The Ninth Circuit's Opinion Is in Accord With Applicable Decisions of This Court And Other Federal Courts of Appeals 9

A. The Circuit Courts Consistently Apply the First Sale Doctrine to Prohibit Lanham Act Restrictions on the Mere Resale of Trademarked Goods 10

B. There Is No Split Among The Circuits Concerning Collective Marks 15

C. Petitioner Is Responsible For Any Confusion 16

D. Petitioner Cannot Use the Lanham Act to Enjoin Competition It Does Not Like 17

II. The Record Does Not Reveal a Question of Federal Importance 19

CONCLUSION 20

TABLE OF AUTHORITIES

Cases:

Page

Adams v. Burks, 84 U.S. (Wall.) 453, 21 L.Ed. 700 (1873) 12

Adolph Coors Co. v. A. Genderson & Sons, Inc., 486 F.Supp 131 (D.Colo. 1980) 14

Aloe Creme Labs, Inc. v. American Soc. for Aesthetic Plastic Surgery, Inc., 192 USPQ 170 (TTAB 1976) 4

Bandag, Inc. v. Al Bolser's Tire Stores, 750 F.2d 903 (Fed. Cir. 1984) 14

Bill Blass, Ltd. v. Saz Corp., 751 F.2d 152 (3d Cir. 1984) 13

Champion Spark Plug Co. v. Sanders, 331 U.S. 125, 91 L.Ed. 1386 (1947) 11

Clairol, Inc. v. Boston Discount Center of Berkeley, 608 F.2d 1114 (6th Cir. 1979) . . . 13

Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977) 17

El Greco Leather Products Co., Inc. v. Shoe World, Inc., 806 F.2d 392 (2d Cir. 1986) 13

General Elec. Co. v. Speicher, 877 F.2d 531 (7th Cir. 1989) 14

H.L. Hayden Co. v. Siemens Medical Systems, 879 F.2d 1005, (2d Cir. 1989) . . 11, 12

Henry v. Chloride, Inc., 809 F.2d 1334 (8th Cir. 1987) 12

Independent News Co. v. Williams, 293 F.2d 510 (3d Cir. 1961) 12

JBL Enterprises, Inc. v. Jhirmack Enterprises, Inc., 698 F.2d 1011 (9th Cir.), *cert. denied*, 464 U.S. 329, 104 S.Ct. 106, 78 L.Ed 2d 109 (1983) . . 18

Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992) 12

Matrix Essentials v. Emporium Drug Mart, 988 F.2d 587 (5th Cir. 1993) 12, 18

Matrix Essentials, Inc. v. Cosmetic Gallery, Inc., 870 F.Supp. 1237 (D.N.J. 1994) 12

O.S.C. Corp. v. Apple Computer, Inc., 792 F.2d 1464 (9th Cir. 1986) 18

Prestonettes v. Coty, 264 U.S. 359, 68 L.Ed. 731 (1924) 11, 12, 15

Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd., 1988 WL 124718, n.3 (D.N.J., Nov. 18, 1988), *aff'd in part, rev'd in part*, No. 88-1995 (3d Cir. 1989) [nonpub. opn.] 2

Sebastian International, Inc. v. Longs Drug Stores Corp., 53 F.2d 1073 (9th Cir. 1995) 2, 6-8, 13, 15, 16

Shell Oil Co. v. Commercial Petroleum, Inc., 928 F.2d 104 (4th Cir. 1991) 13

Sherman v. British Leyland Motors, Ltd., 601 F.2d 429 (9th Cir. 1979) 18

Societe Des Produits Nestle v. Casa Helvetia, 982 F.2d 633 (1st Cir. 1992) 13

United States v. Univis Lens Co., 316 U.S. 241, 86 L.d. 1408 (1942) 12

United States v. Wise, 550 F.2d 1180 (9th Cir. 1977) 12

Statutes:

15 U.S.C. §1 17

15 U.S.C. §1054 . . . . . 7, 15

15 U.S.C. §1114 . . . . . 5, 10

15 U.S.C. §1125(a) 5, 10

15 U.S.C. §1127 11

17 U.S.C. §109 12

Court Rules:

Sup. Ct. R. 15.1 5

Miscellaneous:

Callmann, *The Law of Unfair Competition, Trademarks & Monopolies*, §21.13 (4th ed. 1983) (Fall 1993 Cum Supp.) 10

S. Rep. No. 1333, 79th Cong., 2d Sess. (1946) 12

No. 95-237

In The
SUPREME COURT OF THE UNITED STATES
October Term, 1995

SEBASTIAN INTERNATIONAL, INC.,
Petitioner,

v.

LONGS DRUG STORES CORPORATION,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION

Respondent Longs Drug Stores Corporation ("Longs") respectfully submits this brief in opposition to the Sebastian International, Inc. ("Sebastian") Petition for Writ of Certiorari.

STATEMENT OF THE CASE

This case concerns a collective membership mark that a manufacturer has placed on its own products in addition to the manufacturer's trademark. The manufacturer (Sebastian)

is attempting here to turn the ordinary commercial act of selling a genuine product that bears this collective mark, into a Lanham Act (the "Act") violation. At issue is Longs's right under the trademark laws to sell genuine Sebastian products which it has lawfully purchased on the open U.S. market.

The court of appeals succinctly stated the pertinent background in its opinion. *Sebastian International, Inc. v. Longs Drug Stores Corp.*, 53 F.2d 1073, 1074 (9th Cir. 1995). Sebastian manufactures and distributes hair shampoos, conditioners and fixatives labeled and intended for home use by retail consumers.[1] It sells these products to professional salons, beauty stores, and other distributors that agree to sell exclusively to professional salons and their customers. Certain distributors sell these products to intermediaries who, in turn, sell them to nonsalon retailers. Sebastian has known for many years that nonsalon retailers in general, and Longs in particular, commonly sell its products.[2] Nevertheless, Sebastian's labeling and advertising

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[1] Contrary to what Sebastian implies (Petition, ¶2) and the "for professional use only" captions which frequently appear on its labels, the products in question in the instant lawsuit are not for professional use, but are packaged with instructions directed to and are intended for retail consumer use.

[2] Indeed, another federal court of the Third Circuit has previously found substantial evidence that Sebastian knowingly condoned product diversion by certain of its distributors with whom it has "close" financial ties. *Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd.*, 1988 WL 124718, n.3 (D.N.J., Nov. 18, 1988), *aff'd in part, rev'd in part*, No. 88-1995 (3d Cir. 1989)[nonpub. opn.]

disingenuously suggest that authentic Sebastian products cannot actually be purchased except at salons.[3]

Longs is a well-known operator of some 300 general merchandise stores and full service pharmacies, featuring high quality goods and services, including an extensive line of LONGS brand products. Longs sells genuine, first quality Sebastian products, obtained legally on the open U.S. market.[4] Longs does not make misrepresentations in connection with these sales. Longs does not sell "seconds" or nongenuine products. Longs does not post signs advertising either Sebastian's name or the mark asserted by Sebastian in this case. Longs simply sells Sebastian's authentic products, along with hundreds of other products, in a normal retail store setting.

In 1992, trying to take advantage of an obscure section of the Act for the express purpose of combating its so-called "diversion problem," Sebastian formed a club of itself and its own distributors, named the club "The Sebastian

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[3] Examples of Sebastian's misleading cautions on its labels are: "MANUFACTURED EXCLUSIVELY FOR SALE THROUGH AUTHORIZED SALONS, SALE BY ANY OTHER ENTITY IS PROHIBITED;" "SOLD ONLY IN PROFESSIONAL SALONS;" "BEWARE OF SEBASTIAN PRODUCTS PURCHASED IN PLACES OTHER THAN PROFESSIONAL SALONS."

[4] Contrary to what Petitioner suggests, as Petitioner is aware, discovery in the trial court has demonstrated that Longs has had no dealings with any Sebastian salon or distributor and has not purchased Sebastian products from anyone in privity of contract with Petitioner. Petition, ¶3, and at 10.

Collective Membership Program," and required that its distributors become members. Petition, ¶2.[5]

In addition to placing its SEBASTIAN trademark on the front of its products, Sebastian prints the "collective" mark, "Sebastian Collective Salon Member" (the "collective" mark) on the product back. Although this mark is federally registered, the Trademark Office required Sebastian to disclaim exclusive rights to the words COLLECTIVE SALON MEMBER, because of their descriptive meaning. Longs, who is not a member of Sebastian's club of distributors, kept selling Sebastian products, as it had for some seven years previously.

Sebastian filed suit against Longs on May 18, 1993, alleging that consumer confusion was likely to occur from Longs's so-called "use" of the collective mark in reselling Sebastian's manufactured goods, and that, therefore, Longs committed trademark infringement and unfair competition. The hearing on Sebastian's December 13, 1993 motion for a preliminary injunction was held January 31, 1994. App. A. The district court concluded that any confusion that might exist was caused by **Sebastian's** misleading labeling. App. 8A, 16A. The trial court indicated the motion would be denied on the basis of the first sale doctrine. App. 5A.

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[5] The typical commercial "collective," as contemplated by the Act, consists of a number of otherwise unrelated producers who form together, each member to sell its own products, such as the American Society for Aesthetic Plastic Surgery and the International Institute of Valuers. *See, e.g., Aloe Creme Labs, Inc. v. American Soc. for Aesthetic Plastic Surgery, Inc.*, 192 USPQ 170 (TTAB 1976). Thus, Sebastian's club, comprised only of its network of distributors which sell Sebastian-manufactured products, does not appear to be a true collective, and Sebastian's mark not a true collective mark.

Some six weeks later, without a further hearing on the merits, the trial court reversed itself and granted a preliminary injunction on March 15, 1993. Longs appealed, and the Ninth Circuit reversed.

According to Petitioner, Longs's mere sale of genuine Sebastian products *ipso facto* constitutes federal trademark infringement and unfair competition under 15 U.S.C. §§1114 and 1125(a). Nevertheless, the only alleged "acts" of misrepresentation, trademark infringement and unfair competition of which Petitioner complains are the mere sales of genuine products. The record does not support the existence of the alleged misrepresentations, which form the basis for Petitioner's "Question Presented" and, indeed, Petitioner's entire brief. The only representations made in this case are those made by Sebastian through the labeling on its products and in its advertising. Thus, the essence of Sebastian's claim below was that a Lanham Act violation arose from the mere act of stocking and reselling a genuine product that happened to bear a "collective" membership mark on the rear panel of the product's container.

MISSTATEMENTS IN THE PETITION

To Respondent's surprise and dismay, the Petition contains numerous material misleading statements and misstatements. In compliance with Supreme Court Rule 15.1, Longs notes the following major misstatements in the Petition:

1. The "evidence of confusion" advanced by Sebastian in the trial court (and therefore of record before the court of appeals) was sketchy and questionable. The sole

evidence of "confusion" was a single survey whose reliability was vigorously challenged. Contrary to Petitioner's claim (Petition ¶2), the district court did not find that "the public was confused about whether **Longs** was a collective member." *See* Petitioner's App. C3, C10. The district court recognized the survey's conclusion that a significant number of respondents might believe some selling drugstore was authorized by or affiliated with Sebastian. Petitioner's App. C10. But as the court of appeals correctly pointed out, such "confusion" is legally irrelevant and could not support the district court's order. *Sebastian*, 53 F.3d at 1076-7. The Ninth Circuit never reached the issue of whether the survey was inherently flawed and therefore of little probative value.

2. Petitioner attempts to mischaracterize the circuit court's ruling (and thus to create an alleged "conflict" with rulings of the Fifth and Federal Circuits) by claiming that the Ninth Circuit disapproves of restraints on resales of products. Petition, ¶4, n. 2, ¶5 and pp. 11-12. In fact, the Ninth Circuit's ruling simply confirms the longstanding principle that the **trademark laws** cannot be used by a manufacturer to restrain resales of **genuine** products. *Sebastian*, 53 F.3d at 1074. This is not an antitrust case, and there was no discussion of antitrust law as suggested by Petitioner. Petition at 6. Nor did the circuit court "[premise] its use of the first sale doctrine on a complete prohibition of vertical restraints on the resale of a product", as maintained by Petitioner. Petition at 11. This is strictly a trademark case, and it was decided on well-founded trademark principles.

3. Petitioner further distorts the lower courts' decisions by suggesting that the district court found that

Longs made actual misrepresentations, and that the circuit court ignored this. Petition, ¶5, and p. 8. In fact, Longs made no representations whatsoever concerning Petitioner's products, and there was no finding to the contrary.[6] The Ninth Circuit pointed this out specifically. *Sebastian*, 53 F.3d at 1075, 1076-7. The circuit court observed, "Nothing in the record suggests that Longs did anything more than stock and resell genuine Sebastian products lawfully acquired on the open market under the true Sebastian trademark -- the precise conduct excluded from the Lanham Act by the 'first sale' rule." *Id.* at 1076. Longs's activities did not constitute actual "misrepresentations." The circuit court correctly held that there should be no legal fiction that Longs made implied misrepresentations.

The Petition represents that the record contains evidence of overt misrepresentations and widespread public confusion. In reality, one finds a record that is sparse, evidencing no acts of misrepresentation, and with unresolved evidentiary issues regarding confusion.

4. Although Petitioner claims "the Ninth Circuit overlooked the distinction between collective membership marks and trademarks" (Petition, ¶5), the circuit court specifically addressed this issue and quoted the language of 15 U.S.C. §1054 which states:

> [C]ollective . . . marks . . . shall be registrable under this chapter, in the same

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[6] The trial court found merely that, "by selling [Sebastian] products bearing the collective mark, Longs is arguably misrepresenting to consumers that it is affiliated with or authorized by Sebastian or the Collective [and] that it provides [quality control, consultative services and charity contributions]." Petitioner's App. C10 (emphasis added).

> manner and with the same effect as are trademarks . . . and when registered they shall be entitled to the protection provided in this chapter in the case of trade-marks . . . .

Sebastian, 53 F.3d 1075, n. 6. In other words, collective marks are to be enforced no differently than other marks.

REASONS FOR DENYING THE PETITION

The Petition offers no reasonable basis for review of the circuit court's decision. The decision below did not involve the resolution of important or controversial legal principles not yet addressed by this Court, nor was it contrary to this Court's decisions. Indeed, Sebastian cannot seriously argue that there is a conflict among the circuits requiring this Court's intervention. Courts have consistently held that, with certain well-defined exceptions inapplicable in this case, the right of a producer under the **trademark laws** to control distribution of its product does not extend beyond the first sale of the product. Resale of the original article under the producer's trademark is neither trademark infringement nor unfair competition.

In its opinion below, evaluating whether there should be an exception in this case to the well-established "first sale" or "exhaustion" doctrine of trademark law, the Ninth Circuit Court of Appeals was completely faithful to both the rationale and guidelines set forth in the long judicial history. The court rejected Petitioner's attempt to circumvent this well-settled doctrine merely to enhance its distribution scheme. The Ninth Circuit declined to permit Petitioner's use of the **trademark laws** to enforce contracts limiting

resale against those who never signed those contracts. The circuit court's ruling reflects the application of pertinent and well-settled law to the specific facts of this case -- the resale of genuine, unaltered goods, bearing the producer's trademark, which the manufacturer has placed into U.S. commerce by a first sale. This Court, and all other courts of appeals that have explored similar issues, have reached the identical conclusion.

This result does not change even if consumers were misled by Sebastian's labeling and advertising. Petitioner's attempt to invoke the obscure "collective" mark section of the Lanham Act provokes no different treatment either, since the Act treats collective marks the same as ordinary trademarks. Finally, Petitioner's case is not enhanced by mischaracterizing the Ninth Circuit's decision as an "antitrust" decision. Consequently, the opinion of the circuit court does not present any question worthy of review by certiorari, and the Petition should therefore be denied.

I

The Ninth Circuit's Opinion Is in Accord With Applicable Decisions of This Court And Other Federal Courts of Appeals.

Petitioner's argument -- and, indeed the very purpose of its strategy of creating the "collective" and marking its products as it did -- would favor the creation of a new trademark law remedy against the resale of branded goods absent the manufacturer's consent. Public policy, however, disfavors restrictions upon the free alienation of personal

property by a lawful purchaser in the absence of some particularized need which justifies the restraint.[7]

A. The Circuit Courts Consistently Apply the First Sale Doctrine to Prohibit Lanham Act Restrictions on the Mere Resale of Trademarked Goods.

The Ninth Circuit decision recognized, like all other federal courts that have addressed the issue, that there is no actionable Lanham Act "consumer confusion" in the mere reselling of genuine goods in their original packaging. This is because the mere reselling of genuine goods is not one of the "uses" of a trademark forbidden by the Lanham Act.[8]

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[7] The respected nine volume treatise Callmann, *The Law of Unfair Competition, Trademarks & Monopolies*, (4th ed. 1983), is one of only three major treatises on U.S. trademark law currently in print, and is unique in that it treats all aspects of unfair competition law as well as antitrust law, which helps to put trade identity issues in perspective. Professor Louis Altman, who has been the author of the treatise for some 14 years, agreed to submit a declaration in this case on behalf of Longs, on condition of being able to do so as a scholar, rather than as an advocate. According to Callmann, §21.13 (Fall 1993 Cum. Supp.): The now-reversed trial court's ruling improperly gave "any manufacturer a foolproof tool for keeping its goods out of the hands of unauthorized retailers, e.g., discounters, **a result that neither the trademark laws nor the antitrust laws have heretofore allowed.**" (Emphasis added.)

[8] Section 32 of the Act prohibits "use in commerce [of] any **reproduction, counterfeit, copy, or colorable imitation** of a registered mark . . . ." 15 U.S.C. 1114 (emphasis added). Sebastian itself applied its mark to product that Longs sold. Accordingly, Longs's sale of Sebastian products did not amount to use of a "reproduction, counterfeit, copy, or colorable imitation." This section therefore has no application to this case. Section 43a of the Act prohibits "[use] in commerce [of] any word . . . which -- (1) is likely to cause confusion . . . ." 15 U.S.C. §1125(a). "Use in commerce" occurs when the mark "is placed

Petitioner contends that the simple presence of a so-called "collective" mark, placed by Petitioner on Petitioner's products, falsely represents that Longs is a member of Petitioner's "collective" and is affiliated with Petitioner, and that Longs's sales somehow constitute the services of a salon member of Petitioner's "collective." Nevertheless, when, as here, a purchaser resells a trademarked article under the producer's trademark -- and nothing more -- there is no actionable misrepresentation under the Lanham Act. *See, Prestonettes v. Coty*, 264 U.S. 359, 368, 68 L.Ed. 731, 742 (1924) (Prestonettes permitted to use Coty's mark on repackaged and altered COTY products); *see, also, Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129-130, 91 L.Ed. 1386, 1390 (1947) (defendant not required to remove trademark from reconditioned goods identified as used or repaired). *A fortiori*, the same result obtains in the instant case where, in contrast to *Prestonettes* and *Champion*, it is obvious to the consumer that Longs is not a salon and does not render salon services. The situation is therefore similar to *H.L. Hayden Co. v. Siemens Medical Systems*, 879 F.2d 1005 (2d Cir. 1989), where the Lanham Act §43a claim was dismissed because the unauthorized distributor sold genuine trademarked product. The Hayden court found that customers "are well aware that what they purchase from [defendant] is simply the manufactured product and not its installation". *Id.* at 1023.

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in any manner on the goods or their containers or the displays associated therewith . . . ." 15 U.S.C. §1127. Since Longs did not place Sebastian's mark on anything, there is no use in commerce for purposes of the Act.

All other circuit courts that have considered this question have come to the same conclusion.[9] This is because "trademarks are not monopolistic grants like patents and copyrights." S. Rep. No. 1333, 79th Cong., 2d Sess. (1946) (quoting *Prestonettes*).[10] Indeed, Petitioner appears to concede that the first sale doctrine is valid, simply that it should not apply to collective membership marks. The Petition warps applicable law, however, by portraying exceptions to the first sale doctrine as based on consumer

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[9] *See, e.g., H. L. Hayden*, 879 F.2d at 1023 (2nd Cir.) (quality control concerns did not prohibit mail order sale of dental equipment requiring assembly), cited by Amicus COPIAT; *Independent News Co. v. Williams*, 293 F.2d 510, 515 (3d Cir. 1961) (second-hand periodical dealer permitted to sell magazines, with covers torn off, under original trademarks); *Matrix Essentials v. Emporium Drug Mart*, 988 F.2d 587, 590, 593 (5th Cir. 1993)(case factually very similar to the instant one; "Absent more culpable conduct on the part of the seller, we are unwilling to find misrepresentation in the mere act of putting a manufacturer's product on one's shelf and offering it for sale"); *Henry v. Chloride, Inc.*, 809 F.2d 1334, 1350 (8th Cir. 1987); *Matrix Essentials, Inc. v. Cosmetic Gallery*, Inc., 870 F.Supp. 1237, 1251-2 (D.N.J. 1994)(diverter's sale of unaltered hair care products not infringement; even sale of unaltered products in defaced containers not infringement).

[10] This is consistent with the patent and copyright first sale doctrines, as well. 17 U.S.C. §109; *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977); *Adams v. Burks*, 84 U.S. (Wall.) 453, 456, 21 L.Ed. 700, 703 (1873); *United States v. Univis Lens Co.*, 316 U.S. 241, 250, 86 L.Ed. 1408, 1418 (1942). *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), cited by Petitioner, is not inconsistent. In that case, the hospital purchaser of radiation equipment sent the used equipment to be reconditioned, despite the fact that the patentee specified the equipment was for "single patient use only," due to contamination considerations. The Federal Circuit found: (1) that a "conditional sale" of a patented article based on such safety considerations is enforceable; and (2) if the condition was properly imposed on the purchaser, reconditioning may be repair of an unlicensed device amounting to patent infringement. *Id.* at 709.

confusion (no matter how caused), not on a defendant's prohibited "uses." Petition at 9-10.

The fact that a number of lower federal decisions have found additional facts, besides mere reselling, which created an exception to the first sale doctrine, does not in any way place the Ninth Circuit's decision at odds with those of its sister courts. The Ninth Circuit expressly recognized that there are "well-defined" fact-based exceptions to the doctrine in cases where the challenged use consisted of acts that were something more than "merely stocking and reselling genuine trademarked products." *Sebastian*, 53 F.3d at 1075, 1076.

Cases from the other circuits are consonant with this view. *See, e.g., Societe Des Produits Nestle v. Casa Helvetia*, 982 F.2d 633, 640 (1st Cir. 1992)(material difference between plaintiff's goods and those sold by defendant); *El Greco Leather Products Co., Inc. v. Shoe World, Inc.*, 806 F.2d 392, 394 (2d Cir. 1986)(infringement where license required inspection and inspection certificate, but neither occurred), cited by Petitioner; *Bill Blass, Ltd. v. Saz Corp.*, 751 F.2d 152, 155 (3d Cir. 1984)(sale of out of fashion clothing by former licensee where license specifically prohibited sales after given date), cited by Petitioner; *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 106 (4th Cir. 1991)(Shell's stringent quality control standards, found necessary to prevent contamination in bulk oil sales, not followed by defendant; Shell did not complain about defendant's resale of SHELL **packaged** goods); *Clairol, Inc. v. Boston Discount Center of Berkeley*, 608 F.2d 1114, 1120 (6th Cir. 1979)(enjoined defendant which sold to consumers products intended for professional use only, because they had insufficient warnings and no instructions for retail consumer

use); *General Elec. Co. v. Speicher*, 877 F.2d 531, 533-4 (7th Cir. 1989)(defendant used plaintiff's trademark on product that was not plaintiff's), cited by Petitioner; *Bandag, Inc. v. Al Bolser's Tire Stores*, 750 F.2d 903, 916 (Fed. Cir. 1984)(reseller used producer's mark in telephone directory advertisement in a way suggesting it was producer's franchisee), cited by Petitioner; *Adolph Coors Co. v. A. Genderson & Sons, Inc.*, 486 F.Supp 131, 133, 136 (D.Colo. 1980) (defendant transported and held COORS beer without the refrigeration necessary for unpasteurized beer, resulting in inferior quality), cited by Amicus COPIAT.

Petitioner's contention that application of the first sale doctrine "supersedes the literal language of the Lanham Act" and permits "a reseller of genuine goods [to] misrepresent facts and even confuse the public as to the source of goods . . . ." (Petition, ¶1) is based on a faulty premise -- that Longs allegedly made misrepresentations, when the record shows Longs did not make **any** representations whatsoever. In this case, the only possible misrepresentation of facts or confusion of the public was that created by Petitioner's **own labeling**.[11] *See* Petitioner's App. C3, C10.

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11 As the trial court found on the evidence, "The point is, they [Longs] can't avoid the confusion the way you [Sebastian] labeled this." App. A15.

B. There Is No Split Among The Circuits Concerning Collective Marks.

The Ninth Circuit correctly held that Petitioner cannot bootstrap its case over the first sale doctrine obstacle by claiming the membership mark, that it placed on its products itself, becomes a misrepresentation of affiliation by Longs. The language of the Lanham Act expressly provides that a collective mark shall have the same effect and provide the same protection as a trademark, thereby making the first sale rule equally applicable to both. *Sebastian,* 53 F.3d at 1075; 15 U.S.C. §1054. As the Ninth Circuit observed, it would be a "remarkable result" to hold that the first sale doctrine, which is applicable to all trademarked goods, does not apply to articles sold under a collective mark. *Sebastian*, 53 F.3d at 1075.

> Nothing in the language or legislative history of the Lanham Act suggests that, by authorizing the registration of marks identifying membership in a lodge, political party, club, or other collective organization, Congress intended to provide producers with a simple and fail-safe method to control the channels of distribution of trademarked products -- a power they had been denied at least since the ruling in *Prestonettes*. In the half century since the Lanham Act was enacted, no court has detected the presence of such a legislative purpose. There is no mention of this possibility in Committee

> hearings or reports, on the floor of Congress, or in subsequent case law or commentary.

Sebastian, 53 F.3d at 1075. Petitioner has pointed to no contrary authority. In fact, by its silence, Petitioner appears to concede that the Ninth Circuit properly interpreted the legislative history concerning collective marks.

C. Petitioner Is Responsible For Any Confusion.

As another basis of its decision, the Ninth Circuit correctly recognized that, because Petitioner itself places the collective mark on its products, it is primarily responsible for any confusion that resulted from the mark's assertion of affiliation. Such owner-generated confusion cannot support a charge of infringement against Longs. *Sebastian*, 53 F.3d at 1076. Again, Petitioner has not cited any contrary authority from any other jurisdiction. Nor is there any "split" among the circuits on this point. A contrary holding would encourage producers to invoke the assistance of the courts in controlling downstream distribution of trademarked products simply by placing a statement on the products that they were being resold only by affiliates of the producer. This would create a loophole in the well-established first sale doctrine that would swallow the entire rule.

Petitioner and other manufacturers seeking to emulate its strategy, should not be encouraged to circumvent the first sale doctrine and use the trademark laws to further their distribution strategies. Therefore, the first sale doctrine is an

appropriate bar to Petitioner's claims of trademark infringement and unfair competition on the facts of this case.

D. Petitioner Cannot Use the Lanham Act to Enjoin Competition It Does Not Like.

In their final effort to create some "conflict" between the decision below and those of this Court and other circuits, Petitioner and Amicus urge that the Ninth Circuit has somehow issued an antitrust ruling, one contrary to this Court's holding in *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977). *GTE Sylvania* concerned the relationship between a manufacturer and its own dealers, **not** the ability of a manufacturer to control commerce by persons several steps removed from the manufacturer's dealer system. Unlike the instant case, *GTE Sylvania* involved an action under Section 1 of the Sherman Act, 15 U.S.C. §1, challenging a manufacturer's non-price vertical restraints which it imposed by contract upon its distributors. This Court held in *GTE Sylvania* that such non-price vertical restraints -- territorial restrictions in that case -- might violate the Section 1 of the Sherman Act, but only after a "rule of reason" analysis was conducted.

In contrast, the case below did **not** decide any antitrust challenge to Petitioner's distribution agreements. Petitioner neither sued under the Sherman Act nor did the Ninth Circuit rule that any antitrust affirmative defense barred an otherwise proper claim under the Lanham Act.

Indeed, the Ninth Circuit has consistently followed *GTE Sylvania* in cases where an antitrust challenge has been asserted against allegedly competition-restricting

distributorship terms imposed by a manufacturer.[12] The difference here is that Longs was not party to any distributorship agreement with Petitioner. While Petitioner might have been able with impunity to terminate (or sue for breach of contract) any distributor that may have breached the no-resale clause of its distribution agreements, Petitioner chose not to do so for its own economic reasons.[13] That does not mean Petitioner's remedies under the trademark laws should be expanded.

Simply put, all that the Ninth Circuit considered was the viability of Petitioner's trademark infringement action against Longs. The circuit court held, in conformity with the overwhelming weight of authority, that Petitioner cannot bring such a claim against an innocent reseller, as that would allow it to extend its contractual distributorship limitations to parties with whom it lacks any contractual privity.

It is ironic indeed that Petitioner and Amicus COPIAT would rely upon federal antitrust decisions, which limit the use of federal actions to block economic competition, in

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12 *See, e.g., O.S.C. Corp. v. Apple Computer, Inc.*, 792 F.2d 1464, 1468 (9th Cir. 1986); *JBL Enterprises, Inc. v. Jhirmack Enterprises, Inc.*, 698 F.2d 1011, 1014-1015 (9th Cir.), *cert. denied*, 464 U.S. 329, 104 S.Ct. 106, 78 L.Ed 2d 109 (1983); *Sherman v. British Leyland Motors, Ltd.*, 601 F.2d 429, 449 (9th Cir. 1979). As these decisions show, the Ninth Circuit's analysis of antitrust challenges to vertical restraints (not this case) is identical to that taken by other circuits, including *Matrix*, 988 F.2d at 593-594, where the Fifth Circuit Court of Appeals actually did address an antitrust counterclaim.

13 See footnote 2, *supra*. Obviously, Petitioner could not "terminate" Longs or sue Longs for breach of contract. Sebastian's problem with unauthorized sales by its distributors may be so widespread that Sebastian simply cannot afford to terminate wholesalers and retailers who breach the "no-resale" provision of their distribution agreements.

urging the Court to adopt an expansive interpretation of the Trademark Act, so they can use litigation to **shackle** commercial competition which they perceive injures their economic interests as manufacturers. While Petitioners and Amicus pay lip service to "open competition," what they seek here is the right to **enjoin** competition they do not like.

II
The Record Does Not Reveal a Question of Federal Importance.

The instant case involves the arcane area of collective membership marks. This area of the law is relatively undeveloped by the circuit courts, no doubt because collective marks are little used in commercial enterprise. No court of appeals, other than the Ninth Circuit in this case, has yet addressed the use of a collective membership mark placed by a manufacturer on its own products. Certainly no other court has considered the question whether such a use could become a manufacturer's vehicle to keep its products from being sold except by its own distributors.

The purported importance of the question presented by Petitioner could be better evaluated in a future case with a more developed record of actual misappropriation of another's mark, actual misrepresentations, or of reliable evidence of consumer confusion.

CONCLUSION

The well-established first sale doctrine of trademark law permits a merchant to resell a branded product without the trademark owner's consent. The Ninth Circuit's application of this doctrine to the instant case is consistent with the rulings of other circuit courts and this Court. The Petition should therefore be denied.

Respectfully submitted,

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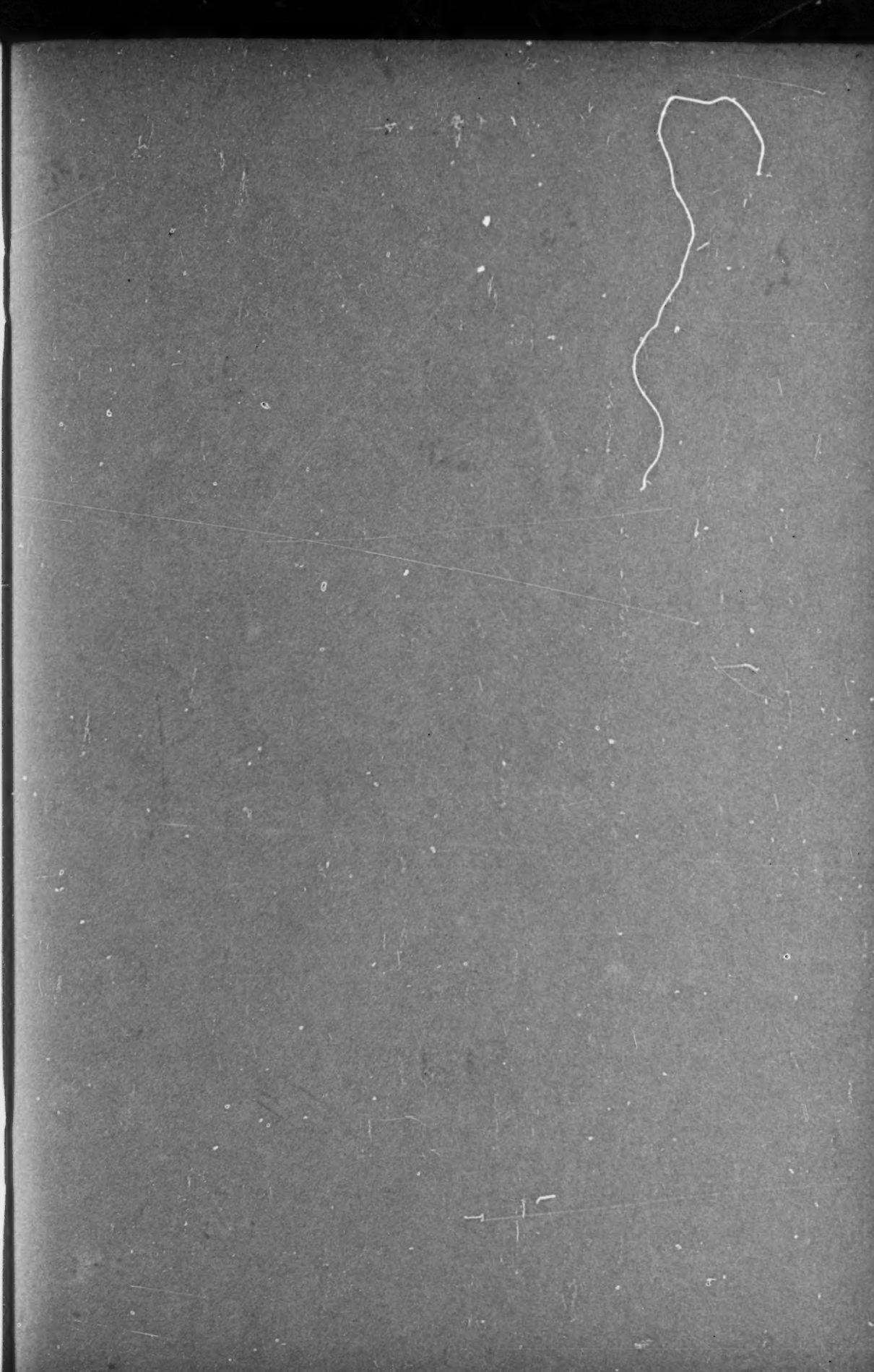

APPENDIX A

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

BEFORE THE HONORABLE WILLIAM D. KELLER,
JUDGE PRESIDING

SEBASTIAN INTERNATIONAL INCORPORATED,	)	
Plaintiff,	)	
vs.	)	CASE NO.: 93-2891 WDK
LONG'S DRUG STORES CORPORATION,	)	
Defendants.	)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS
LOS ANGELES, CALIFORNIA
MONDAY, JANUARY 31, 1994

6:00 P.M.

* * *

THE COURT: Well, thank you for your patience. I hoped to be with you a little sooner.

You have a difficult case here, factually, in my view.

First of all, I understand that you have not received a copy of the minute order of January 26, 1994 refusing to certify. I will see that it goes out tomorrow. I don't think

we would be at this stage if I had agreed to certify. The order will go out tomorrow.

The second thing is this: Let me preface all this by saying that different people come at this, and I'm sure would come at this situation here from diametrically opposed views. And I did appreciate Sebastian's marketing approach, at least as I perceive it, that approach being to create a cachet, and with it, an attendant ability to sell their product at a premium. It's a marketing strategy that seemingly has worked, and more power to them.

However, the question before the Court now, it seems to me, evolves around the unfair competition matter, I believe it is, and the likelihood of confusion.

The collective mark, as it is used, does create a likelihood of confusion. And the statistics that have been [p. 4] given to the Court, or provided to the Court by the plaintiff, seemingly indicate that -- I think it was 38 percent stated that they thought there was some affiliation between Long's and the plaintiff. But the fact that there is this creation of a likelihood of confusion doesn't end the analysis.

It's my perception that plaintiff, in effect -- my notes are not the highest form of clarity.

Let me approach this again. I'm going to hang in there with my analysis regarding Long's and their approach. I do, frankly, identify with that, but that doesn't end the analysis.

To cut right to the heart of the matter, I think the analysis evolves around the so-called First Sale Doctrine. And in that regard, in my view, there are two purposes of this First Sale Doctrine, the first of which to prevent

confusion. The second is, though not stated, to promote the free alienation of goods. It favors free access to goods, and in turn, the consumer.

I think, as I said a moment ago, that there is a likelihood of confusion, as witnessed by the 38 percent study, and just common sense. But I think at the same time the plaintiff creates the confusion in a manner that is going to restrain the free alienation of goods. This is true, because the plaintiff controls the goods by their [p. 5] labeling.

The conclusion would be that the First Sale Doctrine does apply, to hold otherwise what effectively eliminates discounting in high-end goods. And as such, I don't think that there is a likelihood of success on the merits when it comes to the First Sale Doctrine.

Basically I think, under the circumstances, that's a rather odd conclusion, officially. But I think when you analyze it further, at the same time there is a likelihood of confusion. That confusion is contributed to or caused, if you will, by the plaintiff, and as such, the First Sale Doctrine does apply. And the hold otherwise, as I said a moment ago, would eliminate discounting in these high-end goods. I don't think you can do that.

You know. I'll tell you, this thing is so mucked up the way these converging issues are --

MR. ZAITLEN: Your Honor, perhaps if you heard from the parties --

THE COURT: Not yet. [p. 6]

* * *

I will put out a brief minute order tomorrow, but it's a bit convoluted, and I'm going to take another run at it, striking the first part of the analysis.

You are seeking to establish, the plaintiff, trademark infringement and unfair competition. And in that regard, the elements, as I perceive them, are misrepresentation as to affiliation, which causes consumer confusion. And the plaintiff says, "Well, that's it. I can [p. 7] carry the day here, based upon the studies I've shown you. And there is a likelihood of success on the merits, and the attendant damage," et cetera.

The question really in this case, in my view, centers on the likelihood of success on the merits. And I think it is, as I said a moment ago, a bit convoluted.

The defendant, as I understand it, counters the argument that is made by the plaintiff by invoking the so-called First Sale Doctrine. And that First Sale Doctrine is set forth in NEC electronics -- that's letter caps, *NEC Electronics vs. Cal Circuit ABCO*, 810 F.2d. 1506 and 1509.

And that doctrine says "Trademark law generally does not apply to the sale of genuine goods bearing a true trademark, even though such sale is without the mark owner's consent. Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark, without incurring any trademark law liability. The reason is that trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold."

Now, as I understand it, the rejoinder of the plaintiff to the defendant's contention that the First Sale Doctrine

comes into play, and they are entitled to sell as they are doing, is that indeed in the record there is ample [p. 8] evidence to sustain a finding of confusion an the part of the consumer. And there may well be ample evidence.

But the fact of the matter is I think the analysis is that it isn't the defendant who is engendering the confusion. Instead, it's the plaintiff, by the manner in which they labeled. And, associatedly, the purpose of this doctrine is to promote the free alienation of goods.

The defendant argues that the plaintiff can't engender confusion, thus blunting the First Sale Doctrine. And I'm inclined to believe that the defendant is correct in that the cases cited by the plaintiff are distinguishable.

That gets me back to where I started at the onset of this hearing. And that is I understand the marketing approach, I think, of the plaintiff, the cachet marketing approach, and it's a perfectly proper approach. But I don't think that you can avoid the subsequent sale of the original product. And the First Sale Doctrine can, interestingly enough, despite the consumer confusion, be legally implicated by the defendant to defeat your trademark and unfair competition claims.

So what I'm telling you is, hopefully a little more clearly -- albeit you may differ with me -- hopefully a little more clearly, that although I understand where you are coming from, I don't think you can do it here. Since you can't do it, it seems to me the preliminary injunction [p. 9] should be denied.

Just a second, I'll hear from you.

There is a further point to be made in this regard, and it was something I referred to a little earlier. And that is

when you have a high-end manufacturer, such as the plaintiff, if you permitted the high-end manufacturer to use a collective mark, as was done here, to defeat the First Sale Doctrine, you basically would enshrine the high-end sellers and defeat a purpose, a very distinct purpose of the First Sale Doctrine, and to the disadvantage of the consumer.

I don't think that's what all this law is about here, and that's why I think it plays out the way I'm telling it.

And the last point I have written down here is this *Lepage* case, 851 F.2d at 351. The questionability of the collective mark being used by a corporation; I don't know that you can.

I think some good lawyering went in to trying to blunt a very significant problem that appears to be extant in the community. I think there are other ways to go about it, namely probably suing your distributors who are breaching their contract with you, but I don't think you can do it the way you are doing it here.

I do want to hear from you, but that is hopefully a [p. 10] little more clear exposition of the thinking that goes into this preliminary decision denying the preliminary injunction.

* * *

MR. ZAITLEN: * * *

I have to say, the second time around, it was clear to me. But I have to say, with all due respect, I think there was some factual mistakes that the Court is obviously relying upon, and unfortunately some legal ones. I really do believe that.

The first question was once the Court determines that there is a likelihood of confusion, once that determination is made, that overrides the First Sale Doctrine. Once there is a likelihood of confusion, because consumers are being confused, how do you protect consumers from being confused? [p. 11]

Now, here are the cases that support that proposition: *Matrix*, which is a case very close to ours; *Stormer*, which relied upon the sale of authentic goods. *JC Penney* relied on the sale of authentic goods, but consumers are being confused.

The *Matrix* case, which is probably the closest case on point, is readily distinguishable in this case. *Matrix* hires somebody who sold their product exclusively through salons.

The Court has mentioned the First Sale Doctrine, and that's the case that the defendant has thrown up basically throughout their brief.

Take a look at *Matrix*, number one. The Court specifically comments they had no agreements with any of their salons.

We personally visited 51,000 -- in fact, 55,000 salons, and had them sign agreements.

The *Matrix* case said that they found no evidence -- no evidence -- to support the contention that there was confusion. We conducted a survey. The Court cemented that there was a likelihood of confusion based upon the survey; that's what the survey showed. And that's what the Court in *Matrix* didn't find. They found no likelihood of confusion.

Number 3, we have a collective membership mark. We put it in our stores, we put it in our ads, we put it on our

[p. 12] products. *Matrix* was strictly a trademark case, not a collective membership mark case. The First Sale Doctrine, to the extent that it applies, doesn't cover this kind of situation.

If the Court has any questions, it can interrupt me at any time.

The Court commented that confusion was created by the plaintiff.

THE COURT: Well, you put the mark on there.

MR. ZAITLEN: We did. But that's not a crime, your Honor.

THE COURT: I know that.

MR. ZAITLEN: We put the mark on it, and who created confusion? Long's.

THE COURT: If they are going to embark into sales, which normally would be appropriate --

MR. ZAITLEN: Which normally occurs only in salons.

THE COURT: -- you've boxed them.

MR. ZAITLEN: That's right.

THE COURT: The question becomes, in the interests of the consumer, and given the purpose of the First Sale Doctrine, can you box them in like that? That's really the issue here.

MR. ZAITLEN: That's correct, your Honor.

Guess who charges higher prices, us or them? They [p. 13] do, not us. So the comment that the Court made that this is a scheme --

THE COURT: I didn't say "scheme."

MR. ZAITLEN: Well, that's their word.

THE COURT: I didn't use "scheme."

MR. ZAITLEN: No, that's their -- "sham," I think that's their word.

THE COURT: I think it is, arguably, a legitimate response to what they are doing. And the question is is it or isn't it, and that's what I've been flailing around here with in chambers over.

MR. ZAITLEN: Well, the fact of the matter is that Long's, who was selling the goods, shouldn't have had their hands on it in the first place, because it comes from people who should not be selling to them.

THE COURT: It's probably what they call "gray market"; okay?

MR. ZAITLEN: That's sort of like a gray market, but in this particular case, they have contracts with everybody, and they know about the contracts. And we have a collective membership mark and a collective membership program, which is a lot different than gray market.

They charge, by and large, if you average it out, a lot more than we charge. So this isn't part of a high-priced maintenance program, that's not the purpose of [p. 14] this collective membership program. They charge higher prices.

Why do we have the collective membership mark program? Because it helps maintain the quality of this product.

If we have a problem with recalls, we know exactly who we sold it to. Every one of our salons is trained in the use of this product. We don't train Long's.

When a consumer has a problem and they go to Long's, how could they ask, "Can I use this with this?" Maybe if they had a druggist -- they have pharmacists at Long's, but not registered cosmetologists, which you have to

be in order to become a member of the collective membership program. So it's not part of a scheme to maintain high prices.

Now, you might say, "Well, why don't we sue distributors? Why don't we sue salons?"

THE COURT: I did say that.

MR. ZAITLEN: And the answer is we do, we do.

You might say, "How do they get the product if we sue these people?" And the answer is, in many instances, that salons are told by people with a lot of money that this product is being sold offshore, so sell a lot to us, and we will sell it offshore, and you won't get into any problems. It's hard to track down where the source is coming from when [p. 15] you have 55,000 outlets for your product. And to figure out which one is selling to the diverters is difficult.

Let's shift just for a minute.

THE COURT: It's easier to sue the diverters is what you are saying.

MR. ZAITLEN: We don't know who they are.

THE COURT: I'm sorry. It's easier to sue the second tier.

MR. ZAITLEN: Yes, because it shows up in their drug stores.

Let's talk about Long's just for a moment.

They get the product hit and miss, because they are buying it through a diverter. That means it shows up in some stores and not in others. They make a point in their papers that there is some great consumer loyalty, and they are going to be irreparably injured because of the fact their stores don't see a lot of product, and it's carried hit and miss.

THE COURT: It's because their high-end stores carry it.

MR. ZAITLEN: Well, Long's is claiming they sold it for less, but their own declaration showed they sold it for more. But aside from that problem, Long's is selling it, and perhaps creating the impression with consumers that, "Hey, you are buying it at Long's, you are getting it for [p. 16] less than at the salons." The reality is you are paying more there than at the salons, which are the legitimate outlets that we have by contract.

With every salon, if you don't sign the contract, you don't get the product. It's part of an overall marketing program, and it has very little to do with the price. Because if it did, we would sell to people who didn't become members of the collective.

The reality is that we don't sell to anybody who doesn't sign the agreement. You have to be a registered cosmetologist in order to become a member, and you have to be trained in the product in order to use it, and what other products can be used with it. And if you meet all those requirements, then and only then you get to be a member of the collective.

Long's never signed it. Long's doesn't have a registered cosmetologist working on staff, at least that I know about. They sell it for more than us, they are violating our collective membership mark rights, registered with the United States Patent and Trademark Office.

THE COURT: What about the strength of your collective membership mark rights as a corporation.

MR. ZAITLEN: Let's talk about that, the strength of the mark.

Aside from visiting the individual salons, salon by [p. 17] salon, with the amount of effort and money that took -- the $4 million dollars that were spent in 1993 -- not every single salon had the collective membership mark, but many of them did. Aside from that, I think that's a pretty strong mark, the registration of the mark with the Patent Office, which the Patent and Trademark Office assured was valid.

Now, there is a question at the very end about whether Sebastian can own the mark. To answer that, there was a change in the law in 1988 that held -- the Trademark Manual Examining Procedure, TMEP, section 1304.05 -- "A collective membership mark may be owned by someone other than the collective organization," like us, "whose members use the mark. The owner might not itself be a part the collective organization.

"An example is a business corporation," like us, "which forms a club," which we did, "for persons meeting certain qualifications," which we have, and they are extensive, "and in which formed club arranges to retain control of the group and of the mark," which we have, because they signed a separate trademark license agreement as part of the agreement that you have to have all the qualifications.

"The corporation which retained control of the mark is the owner of the mark, and is entitled to apply for and register the mark," which we did. And they cite a case [p. 18] here, and I'll read the case into the record. It's *In re Stencel Aero Engineering Corp*, it's a United States Patent Quarterly case, your Honor.

I have a copy of the case. I think I faxed a copy, but anyways --

MS. PERRY: What's the date on that?

MR. ZAITLEN: The TMEP was 1988.

MS. PERRY: No, the *Stencel* case.

THE CLERK: 1971.

MS. PERRY: 1971.

MR. ZAITLEN: This is at the end of the case that I'm about to tell you, your Honor, and it is a case that's cited at the end of the Trademark Manual Examining Procedure book; my edition is May of 1993.

At section 1304.05, after the part that I just read for you, it ends with *In re Stencel* [citation omitted]. That's the case.

My understanding is before this section, there was an issue in the law of whether a corporation such as Sebastian can apply for the mark. And this basically clarified that a company like Sebastian can indeed apply, and we did indeed apply. These facts were disclosed to the Patent and Trademark Office, and they issued the mark to us.

I did misspeak, your Honor. [p. 19]

This 1304.05 section was not the section that was added in the '88 amendment, so this has been the law that a company like Sebastian could apply for and register a collective membership mark. The '88 amendment means that we could use this mark on a product.

We applied for the mark. I think TMEP makes it very clear that we are entitled to apply for the mark. The trademark office found the mark and the trademark application in proper form. It issued us two registration certificates.

We have used the collective membership mark in salons and ads, and other forms of advertising, and we also

put it on the product. The *Boise* case -- and there is other cases cited in our brief -- specifically held that there is no problem in putting a collective membership mark on a product, which is what we do. They use it -- Long's -- to sell the product; they are not a member of the collective. They create the confusion because people are used to seeing these kind of products only sold through salons.

The argument that they have been selling it for seven years is one of the great red herrings of all time. They sell it hit and miss. When the diverter gets them, they put it on the shelves. When they run out of the product, they don't carry it any longer. So it's one of these things this Long's has it, they sell it. Then maybe a [p. 20] month, two months, maybe six months later, then Long's has it again. All the Long's Drug stores in California, the vast majority don't carry this product, so it's a hit-and-miss type of arrangement.

People over the years -- certainly since we have initiated this collective membership mark program -- since that program has been instituted, consumers have come to recognize that when they see the collective membership mark, they know that this person is a member of the collective, and has agreed to certain rules and regulations set up by the collective. And your Honor, this is a clear case of collective membership mark infringement.

The First Sale Doctrine does not apply to this type of situation. The First Sale Doctrine applies when there hasn't been any confusion like there was -- like the Court didn't find in *Matrix*, but there is here.

THE COURT: You know, the problem I'm having is a perception from that one statement. That's why it's difficult.

MR. ZAITLEN: It's a difficult picture.

THE COURT: That's why we have spent this time going back and forth into chambers, and that's why we've got a melt down from me today.

So what I'm saying to you is that normally you wouldn't implicate the First Sale Doctrine if there wasn't [p. 21] attendant with this the so-called first sale confusion.

MR. ZAITLEN: Right.

THE COURT: And the normal case is -- is the defendant creating the confusion, the first seller creating the confusion, given the context of the sale? The point is, they can't avoid the confusion the way you labeled this. And if I validate the marketing approach that you've used, I eviscerate the First Sale Doctrine, which was created to protect the consumer. That's the thing that's concerning me.

MR. ZAITLEN: There are three cases that are in our papers. The *Stormer* case, the *JC Penney* case, and the *Matrix* case. --

THE COURT: I think you argued that already.

What the law clerk points out is the cases that you are citing really are distinguishable.

Let me ask the defendant, am I missing your theory?

MS. PERRY: No, your Honor. You have expressed it just exactly the way we would have you understand it from our papers. That if you were to grant this exemption, it would be a radical departure from the trademark laws that have existed for years and years. It's never before been

actionable to resell authentic products, and this would make it actionable.

THE COURT: Well, it would be actionable if there [p. 22] is attendant confusion.

MS. PERRY: If the products had been adulterated in some way, or the defendant is holding itself out to be affiliated with the plaintiff in some way, which isn't true in this case, of course. We are just simply reselling the product.

* * *

MR. ZAITLEN: My brief retort, your Honor, is that in Long's papers they are saying that so long as there is no affiliation, there is no likely confusion. The survey showed the consumers thought there was an affiliation. The consumers thought that when they had the collective membership mark, that Long's was affiliated with Sebastian. It wasn't just --

THE COURT: Again, the problem is, I grant you, that there was a substantial percentage of people that saw the affiliation. But the question is, can you, by your labeling with a collective mark label, create the perception of affiliation? Because the bugaboo is that if you can do that, there is going to be a bandwagon from here to San Francisco, where she comes from, of companies doing this [p. 23] very same thing, because they can make an end run at the First Sale Doctrine of high-end goods. That's what the concern is.

Look, I'm not going to be a social pioneer here, I'm just telling you that that would appear to be the problem that

we are facing here. And I can't just simplistically look at it and say the First Sale Doctrine doesn't apply. That's the problem.

MR. ZAITLEN: In order for someone with a high-end good to do that, of course they have to register the mark, then they have to go out and sign up all the these outlets, and have all of these requirements. And I assume that they would otherwise be able to qualify like we have with cosmetology requirements, training requirements, et cetera, et cetera. I don't know that there is going to be a bandwagon of people that could really do all those things.

THE COURT: Well, it may not be a bandwagon, maybe I'm imagining more people or more manufacturers than not.

You haven't said that I was wrong, that your approach potentiates being able to monopolize -- perhaps not in a true sense, but in a lay sense -- to monopolize that high-end market, and basically eliminate what has been distinctly carved out as effectively an exception to the norm in the trademark unlawful competition area. That's the issue, I grant you. [p. 24]

I'm telling you, some people thrive over this issue in the Court of Appeals. I'll tell you, there isn't any doubt about it; it is a very unusual issue.

MR. ZAITLEN: It's a really interesting issue, your Honor. And this is precisely why I think the injunction should be granted. Because Sebastian is not Lever Brothers, or Procter & Gamble.

THE COURT: They are, relatively speaking -- they are not relatively in the same category that Long's is

probably. They carved out a little niche market, and this is why I said I'm sympathetic with you.

MR. ZAITLEN: They deserve protection. They are not trying to maintain high prices; Long's beats them in that category. They are trying to protect their little and relatively unique marketing scheme.

I now we are getting redundant; the hour is late. I guess the last point, your Honor, is that one of the problems being created by this sale by Long's is, aside from consumer confusion, one of the little other things that came up in the survey is consumers think -- six percent of the consumers that were surveyed thought that's the products that were being sold by Long's weren't authentic to begin with. They are seconds; they are rejects. They were not --

THE COURT: That is a danger, that perception, and that's a very -- that does give me concern. That here you [p. 25] create this perception -- and perhaps it's a very well-deserved perception -- but through your marketing efforts, you create this perception that you are high end. And along comes Long's, and people say, "How in the world are you selling this at Long's? Something got to be wrong."

MR. ZAITLEN: Right.

THE COURT: And when they do that, I grant you, there is a problem there.

If I could do something about requiring a disclaimer on their part, and not just a verbal disclaimer, I'm talking about something like you are not going to be representing in the milieux in which you sell, you are not going impact adversely their product.

I'm going to give the consumer some protection. I'm going to give them real protection.

You are not going to represent to the public that they -- given the setting in which you sell -- that they are getting a deal, basically, and then, in effect, these consumers that I'm worried about protecting, and which the law is worried about protecting, more importantly, as witnessed by the First Sale Doctrine, these customers are getting it right in the ear.

Now, give me a response to that. [p. 26]

* * *

MS. PERRY: * * *

With respect to the price question, I just wanted to point out to the Court that Sebastian compared a Brentwood Long's store with a Culver City salon. And I think really if you took salons in an up-scale neighborhood, and compared them with at Long's prices, you would find what we found in our investigation, and what we pointed out in our declarations, that Long's prices generally are the same.

THE COURT: You are saying, look, it's just not an actual amount. You are comparing apples and oranges here. You have a Brentwood location compared to Culver City, but they are nice people in both communities, but they are not in this same income level.

MS. PERRY: They don't have the same rents. It's a high-rent area.

THE COURT: Let's assume, for the sake of the conversation, that I am comparing Brentwood with Brentwood. Then what would be your response?

MS. PERRY: First of all, there was a very low percentage of confusion. McCarthy himself said that anything below 10 percent can be actually evidence of no

confusion. They have got a six percent level of people [p. 27] thinking that these products aren't authentic. That seems like a low percentage.

In other words, their survey didn't measure whether people were confused because of the collective mark an the label, or because of this warning that they got on their label that says, "Caution: Don't buy this unless you buy it at a salon." That's enough to make anybody think it's not authentic. So again, it's their mislabeling drawing consumers to this conclusion, not anything that Long's is doing.

THE COURT: Are you going to fashion something where I require a written disclaimer, while denying the injunction?

You can't. It's going to have to be -- I have to find that you are going to prevail to get you anywhere. I want to protect you, but I want to be consistent with the First Sale Doctrine, also. So how do I protect you?

MR. ZAITLEN: Well, we're asking for equitable relief, your Honor. And my understanding of the Court's duty is to protect consumers.

THE COURT: I'm going to be consistent. I'm not here to say, "Don't worry, I'm going to take care of you, consumers, darn the law," I'm not saying that.

MR. ZAITLEN: I understand.

THE COURT: But I don't think I can get to saying [p. 28] to them you are not going to get away with something like that, you are going to -- excuse me.

I don't think I can get to that without finding a likelihood of success on the merits.

MR. ZAITLEN: Quite frankly, your Honor, I don't know the answer to that question. I think you may be able

to fashion that kind of relief, and still deny a broad injunction, or broad injunctive relief to that --

THE COURT: That would be if I were in the injunctive mode, and I could do what you are talking about. I've got to get there. And the problem is, getting there is impacted by the analysis I shared with you, albeit you say "Well, you can revisit this analysis, in view of what the actuality is, and the consumer is being disserved rather than served."

MR. ZAITLEN: Your Honor, perhaps there is this:

As you know, in order for us to be entitled to any kind of relief, you can say that there are serious questions. You can balance the likelihood of success on the merits.

THE COURT: You take the other form of the analysis and say --

MR. ZAITLEN: That's right. You can say "Well, we have a lot of" --

THE COURT: You got a lot of damage and -- [p. 29]

MR. ZAITLEN: That's correct.

THE COURT: And then a fair case otherwise.

MR. ZAITLEN: Irreparable damage.

THE COURT: A fair case analysis, and there ends the analysis.

MR. ZAITLEN: And, therefore, some limited relief that's appropriate in the form of a limited disclaimer.

MS. PERRY: Your Honor, I have a problem with their claiming that they're irreparably damaged. This has been going on for seven years, and the only thing that's changed in the last seven years is that he put a little tiny

mark on the back of their product. Everything else is the same.

Long's has been selling this for the last seven years. There is absolutely no evidence that consumers have been misled in any way, no defective products have been sold. No one's complained to them that -- as far as we know -- that they haven't gotten service. Nothing has changed in the last seven years. I can't imagine how they can claim that they have been irreparably damaged.

MR. ZAITLEN: The collective membership mark has certainly not been around for seven years. We put them on notice seven years ago that they were interfering with our contractual relationships because they are getting the product through diverters.

After the collective membership program was put [p. 30] into effect, after the mark was registered, very shortly thereafter we found out they were carrying products that had the selective mark on them. In our view, they were representing themselves as being a member of the collective, and shortly thereafter we sued them.

THE COURT: We are going to be in recess.

Do I have a phone number for each of you in case we need to reach you for a telephone conference tomorrow?

I have everybody's number.

MS. PERRY: Okay, good.

THE COURT: If we need you tomorrow, I'll set up a telephone conference. I don't know that we will.

I do thank you for your patience, and the law clerk and I will readdress this tomorrow, after we don't have 11 hours under our belt.

We will be in recess. Thank you.

Supreme Court, U.S.
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No. 95-237

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1995

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Petitioner,

v.

LONGS DRUG STORES CORPORATION,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF *AMICI CURIAE* OF COSTCO WHOLESALE CORPORATION, THE PRICE COMPANY, AND NATIONAL ASSOCIATION OF CHAIN DRUG STORES IN SUPPORT OF RESPONDENT

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TABLE OF CONTENTS

Page

INTEREST OF *AMICI CURIAE* 1

STATEMENT 3

SUMMARY OF ARGUMENT 4

ARGUMENT 6

I. The Record Lacks Evidence Of Any Lanham Act Violation That Might Conflict With The Ninth Circuit's Application Of The First Sale Rule 6

II. The Ninth Circuit's Application Of The "First Sale" Rule Is Wholly Consistent With This Court's Past Decisions 13

CONCLUSION 17

APPENDICES:

Appendix A – Appellant's Excerpts of Record, *Sebastian International, Inc. v. Longs Drug Stores Corporation*, 9th Cir. No. 94-55461 . . . . . 1a

Appendix B – Members of National Association of Chain Drug Stores 11a

TABLE OF AUTHORITIES

Cases:

Adams v. Burke, 84 U.S. (17 Wall.) 453 (1873) 14

Aloe Creme Lab. v. American Soc. for Aesthetic Plastic Surgery, 192 U.S.P.Q. (BNA) 170 (TTAB 1976) 10

American Speech-Language-Hearing Ass'n v. National Hearing Aid Soc., 224 U.S.P.Q. (BNA) 798 (TTAB 1984) 10

Bill Blass Ltd. v. SAZ Corp., 751 F.2d 152 (3d Cir. 1984) 12

Bloomer v. McQuewan, 55 U.S. (14 How.) 539 (1852) 14

Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908) 14

Cases, continued: Page

Boise Cascade Corp. v. Mississippi Pine Mfrs. Ass'n, 164 U.S.P.Q. (BNA) 364 (TTAB 1969) 11

Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947). 15

Continental T.V. v. GTE Sylvania, 433 U.S. 36 (1977). 14, 16

Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451 (1992) 16

F.R. Lepage Bakery, Inc. v. Roush Bakery Prods. Co., 851 F.2d 351, *modified*, 863 F.2d 43 (Fed. Cir. 1988) 11

Huber Baking Co. v. Stroehmann Bros. Co., 252 F.2d 945 (2d Cir.), *cert. denied*, 358 U.S. 829 (1958). 11

Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992) 12

Matrix Essentials, Inc. v. Emporium Drug Mart, Inc., 988 F.2d 587 (5th Cir. 1993) 12

Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924). 6, 14, 15

Professional Golfers Ass'n v. Bankers Life & Casualty Co., 514 F.2d 665 (5th Cir. 1975) 9, 11

Quality Courts United, Inc. v. Quality Courts, Inc., 140 F. Supp. 341 (D. Pa. 1956) 10

Schroeder v. Lotito, 577 F. Supp. 708 (D.R.I. 1983), *aff'd*, 747 F.2d 801 (1st Cir. 1984). 9

Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd., 847 F.2d 1093 (3d Cir. 1988) 13

United States v. Univis Lens Co., 316 U.S. 241 (1942) 14

Statutes:

Lanham Act §32(1), 15 U.S.C. §1114(1) 4, 5, 6, 7

Lanham Act §43(a), 15 U.S.C. §1125(a)(1). 4, 5, 6, 7

15 U.S.C. §1127. 9

17 U.S.C. §109(a). 14

Page

Miscellaneous:

S. Rep. No. 1333, 79th Cong., 2d Sess. (1946), *reprinted in* 1946 U.S.C.C.A.N. at 1275 15

Sup. Ct. Rule 10.1(a) 5

Trademark Manual of Examining Procedure §1304.01 (2d ed. May 1993) 10, 12

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INTEREST OF *AMICI CURIAE*

1. Costco Wholesale Corporation ("Costco") and The Price Company ("Price Club")[1] operate "Costco" and "Price Club" membership warehouse clubs across the United States and Canada and in certain other countries

[1] Costco and Price Club are wholly owned subsidiaries of Price/Costco, Inc., whose shares are publicly traded.

and have members from more than 10 million U.S. households. With a low cost structure, Price Club and Costco sell brand-name goods at extremely low prices. These have included genuine goods manufactured by petitioner, Sebastian International, Inc. ("Sebastian"). Sebastian's counsel has sent Costco and Price Club letters claiming that *amici* are infringing the Sebastian collective membership mark by selling genuine Sebastian products to which Sebastian has affixed the mark on the rear panels of the original containers.

2. National Association of Chain Drug Stores ("NACDS") is a national association of retail chain drug store companies. It has 134 members that operate 21,186 retail outlets throughout the United States representing over $60 billion in sales. *See* Appendix B at 11a. NACDS members sell genuine high quality products, including trademarked goods, at low prices.

A reversal of the Ninth Circuit's decision in this case would have far-reaching consequences for NACDS members. It would likely inspire other manufacturers to adopt the same strategy that Sebastian has followed—i.e., creating a "business club" of one's own customers, calling the business club a "collective," affixing a "collective membership mark" somewhere on the package of the manufacturer's products, and then invoking the federal courts to enjoin NACDS members from reselling these genuine products.

3. Consents from petitioner and respondent to file this brief *amici curiae* are being filed separately with the Clerk. Previously, the Ninth Circuit granted Costco, Price Club and NACDS leave to file a brief *amici curiae* before that court.

STATEMENT

This case concerns a manufacturer's use of a "collective membership mark" on a product package in an effort to control the product's distribution, not just by the manufacturer's own customers, but by all resellers in all aftermarkets.

Sebastian places two marks on its products (which are shampoos, conditioners, and other hair care products). First, on the front panel of each package Sebastian puts the principal label and a traditional trademark. Second, on each package's back panel, Sebastian places a collective membership mark that says "Sebastian Collective Salon Member." *See* Appendix A *infra* at 8a.[2]

Sebastian formed a "business club" consisting of those salons and distributors to whom it chooses to sell. Appendix A at 1a. The club's charter says, "This business club will be governed by a Board of Advisors composed exclusively of executives and/or personnel of SEBASTIAN." *Id.* at 2a. This club is the "collective" referred to by the collective membership mark on the back panel of Sebastian products.

Longs Drug Stores Corporation ("Longs Drug" or "Longs") is not a member of Sebastian's business club collective. It purchased genuine Sebastian products on the open market from traders who apparently obtained them from Sebastian's authorized salons or others. Pet. A2. Thus, the products had been previously sold at least twice when Longs purchased them.

Longs made no affirmative use of the collective membership mark. It did not copy it. It did not post any sign

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[2] Since the undeveloped state of the record is a central focus of this brief, *amici* have set out in Appendix A certain portions of the Excerpts of Record on file with the Ninth Circuit.

or publish any ad saying it was a "Sebastian Collective Salon Member." It did not even advertise the products or alter or repackage them. Longs simply placed the Sebastian products on the shelves in its drug stores, along with hundreds of other products it sells.

Sebastian brought suit, claiming that Longs' ordinary commercial acts of stocking and reselling products bearing a collective membership mark created a "likelihood of confusion" in violation of sections 32(1) and 43(a) to the Lanham Act, 15 U.S.C. §§1114(1) and 1125(a).

SUMMARY OF ARGUMENT

The petition asks the Court to consider the relationship between the first sale doctrine and Sebastian's novel use of a collective membership mark on its own label, as a device to control not only its own customers but also downstream resales of its products by others. No other court of appeals has addressed this question. However, the Ninth Circuit's decision—that use of a collective membership mark on a product label confers *no* greater rights beyond the "first sale" than does a trademark—is consistent with administrative practice: The Patent and Trademark Office has ruled that collective membership marks are not for use on goods.

Granting the petition based on the court of appeals' decision below would immerse the Court in an issue that lacks a clear record. Petitioner's "Question Presented" presumes that the record contains "misrepresentations to the public and conduct likely to cause consumer confusion." Pet. i. Yet the record does not show that Longs Drug made any statement that would rise to a misrepresentation or that it engaged in any conduct explicitly or implicitly deceptive. It simply placed

on its store shelves genuine products that happened to bear (on their rear panels) a collective membership mark placed not by Longs Drug but by the original manufacturer.

The sole evidence of "confusion" in the record, a single consumer survey, was challenged on appeal. The record shows that this survey included several leading questions to the interviewees. *See* Appendix A at 7a-9a. The Ninth Circuit did not reach this evidentiary issue before it. Thus, were this Court to take this case, it would find an unsettled record on whether there was any public confusion from Longs' act of placing genuine products on its store shelves.

Accordingly, this case does not present a conflict between the first sale doctrine and a record of "misrepresentations" or "confusion" in violation of sections 32(1) and 42(a) of the Lanham Act. The purported conflict and its importance are hypothetical. Further, because no other court of appeals has yet considered the significance under Lanham Act section 32(1) or 43(a) of a store's selling a product bearing a collective membership mark placed by the manufacturer, there is also no conflict among the circuits (Sup. Ct. Rule 10.1(a)).

Finally, there is no conflict with any past decisions of this Court. Those decisions support application of the first sale doctrine in situations in which the defendant has made a far greater use of the trademark than has Longs here. Although this Court's antitrust jurisprudence has declared that certain resale restrictions on a manufacturer's own customers do not rise to a *per se* violation of the Sherman Act, this Court has never declared that it is procompetitive for a manufacturer to attempt to exercise control, beyond its own customers, over all resellers of its product.

ARGUMENT

I.

THE RECORD LACKS EVIDENCE OF ANY LANHAM ACT VIOLATION THAT MIGHT CONFLICT WITH THE NINTH CIRCUIT'S APPLICATION OF THE FIRST SALE RULE.

Under the Lanham Act, Sebastian could not have enjoined a retailer from reselling its unaltered and genuine products simply because Sebastian's trademark was on the front of those products. *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924). Instead, by affixing to the back of its products a collective membership mark, Sebastian seeks to prevent all trade in its products in all aftermarkets. In attempting to accomplish this unprecedented feat, Sebastian relies on a record below that reveals (A) only ordinary commercial conduct by a retailer, (B) evidentiary issues unadjudicated by the court of appeals about whether this ordinary commercial conduct has caused (or could cause) "confusion" under the Lanham Act, (C) a use of a collective membership mark that the Patent and Trademark Office has deemed inappropriate, and (D) a lack of consideration of this use by any other court of appeals. This is hardly a worthy case for certiorari.

A. The central premise of the petition is that the record reveals a clear violation of sections 32(1) and 43(a) of the Lanham Act, with which the Ninth Circuit's application of the "first sale" doctrine purportedly conflicts. Petitioner says there is a conflict with the Lanham Act's "plain language," Pet. 6, which arises from a record that supposedly reveals "misrepresentations to the public and conduct likely to cause consumer confusion," Pet. i. The record, however, does not support this assertion.

Subject to certain limitations, sections 32(1) and 43(a) of the Lanham Act proscribe the "use" of another's mark when such use is "likely to cause confusion, or to cause mistake, or to deceive. . . ." 15 U.S.C. §§1114(1), 1125(a)(1). However, the acts of Longs Drug were not inherently of the type that cause "confusion" or that "deceive." Longs Drug simply put genuine Sebastian products on its shelves and sold them when a customer brought them to the cash register:

> Nothing in the record suggests that Longs did anything more than stock and resell genuine Sebastain products lawfully acquired on the open market under the true Sebastian trademark. . . .

Pet. A7-A8. This ordinary retail transaction falls short of misrepresentation or deceit under the Lanham Act. As the court of appeals below stated:

> When a purchaser resells a trademarked article under the producer's trademark, and nothing more, there is no actionable misrepresentation under the statute.

Pet. A6.

B. Petitioner in the district court attempted to establish "confusion" through other means—a single consumer survey, the reliability of which was challenged (but never adjudicated) on appeal. The challenge to the survey's reliability centered on the use of a window decal. A substantial number of Sebastian's authorized salons display in their store windows a decal bearing the Sebastian collective membership mark. Appendix A at 4a, 6a. Longs Drug, however, never displayed any such decal. Nevertheless, each interview during the consumer survey began as follows:

> . . . The interviewer handed the survey respondent the sign/decal, which might be displayed on the window of a store or shop. . . .
>
> The interviewer than asked the respondent the following questions:
>
> 2a. This is a sign or decal which might be displayed on the window or a store or shop. . . .
>
> 2b. If you saw this sign or decal on a store or shop window, what would you believe it meant?

Appendix A at 7a.

On appeal to the Ninth Circuit, Longs Drug challenged the evidentiary reliability of this survey because the survey invited the interviewees to assume (incorrectly) that Longs Drug placed in its store windows a decal bearing the Sebastian collective membership mark. The Ninth Circuit did not reach this evidentiary question. If this petition were granted, the Court would need to determine whether the survey techniques were reliable and whether the survey adequately supported a finding of "confusion" caused by the mere placing of genuine Sebastian products on Longs' shelves. All of these determinations, not reached by the Ninth Circuit, would be necessary predicates to deciding the question presented in the petition.

C. Granting this petition would embark the Court on yet another undeveloped trail: the meaning and significance of a collective membership mark when placed by a manufacturer on its own products. Although district courts and administrative bodies have addressed similar issues, the Court here would have to find its way without the guidance of a body of decisions from our courts of appeal. The path would be obstructed by the following thorny issues.

Collective marks are divided into two groups: (1) collective trademarks and service marks and (2) collective membership marks.[3] Sebastian registered its mark as a collective membership mark, designated by the letters "CMM." Typically, an establishment uses a collective membership mark on store signs, in windows, on business cards and in the advertisements to publicize the establishment's affiliation with a group or association. *See Schroeder v. Lotito*, 577 F. Supp. 708 (D.R.I. 1983), *aff'd*, 747 F.2d 801 (1st Cir. 1984) (a printer placed in his window a "union" emblem, a collective membership mark, to give the impression that he ran a "union" shop and to influence the public to patronize his shop); *Professional Golfers Ass'n v. Bankers Life & Casualty Co.*, 514 F.2d 665 (5th Cir. 1975) (a golf association's collective mark, "PGA," was used by a private country club as part of its name, thus suggesting affiliation with the PGA).

By contrast, the present case involves a manufacturer that placed a collective membership mark on its own products in the manner of a trademark. The Patent and Trademark Office has taken the position that a collective *membership* mark is not to be used on goods.

> Membership marks are not trademarks or service marks in the ordinary sense; they are not used in business or trade, and they do not indicate commercial origin of goods or services. Registration of these marks fills the need of collective organiza-

---

[3] Section 45 of the Lanham Act says: "The term 'collective mark' means a trademark or service mark . . . used by the members of a cooperative, an association, or other collective group or organization . . . *and includes marks indicating membership* in a union, an association, or other organization." 15 U.S.C. §1127 (emphasis added).

> tions *which do not use the symbols of their organizations on goods* or services but which wish to protect their marks to prevent their use by others.

Trademark Manual of Examining Procedure §1304.01 (2d ed. May 1993) (emphasis added).

The Patent and Trademark Offices's Trademark Trial and Appeal Board ("TTAB") has similarly drawn a distinction between collective trademarks and collective service marks, on the one hand, and collective membership marks like the one here, on the other:

> A collective trademark or collective service mark is a mark adopted by a "collective" . . . for use only by its members, who in turn use the mark to identify their goods or services and distinguish them from those of nonmembers. . . . A collective membership mark is a mark adopted for the purpose of indicating membership in an organized collective group, such as a union, an association, or other organization. *Neither the collective nor its members uses the collective membership mark to identify and distinguish goods* or services; rather, the sole function of such a mark is to indicate that the person displaying the mark is a member of the organized collective group.

Aloe Creme Lab. v. American Soc. for Aesthetic Plastic Surgery, 192 U.S.P.Q. (BNA) 170, 173 (TTAB 1976) (emphasis added); *accord American Speech-Language-Hearing Ass'n v. National Hearing Aid Soc.*, 224 U.S.P.Q. (BNA) 798, 806 (TTAB 1984) (invalidating a collective membership mark used to certify the quality of services: "Collective membership marks are not trademarks or service marks in that they do not indicate commercial origin of goods or services"); *cf. Quality Courts United, Inc. v. Quality Courts, Inc.*, 140 F. Supp. 341, 347 (D. Pa. 1956) ("If the mark is used by the organization

itself to identify its own goods or services . . . it is a trademark or service mark.'",[4]

Sebastian did not register a collective trademark, only a collective membership mark.[5] Thus, there is an issue (also unresolved by the court of appeals below) of the legal significance of Sebastian's having placed a *membership* mark on its products. Did it simply signify that the product emanated from a member of the Sebastian collective? If so, the mark was being used as an unregistered collective *trademark.*

Or did the mark signify that whoever might eventually sell the goods was a member of the Sebastian collective? If such a finding were to be made, the Court would have to confront the continuing viability of the Patent and Trademark Office rulings that registration of collective *membership* marks is only available to "collective organizations which do not use the symbols of their organizations on goods. . . ." *Trademark Manual of Examining*

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[4]Other decisions permit an association to use a collective mark to identify the origin of goods, but appear to involve use as a collective trademark rather than as a membership mark. *See Huber Baking Co. v. Stroehmann Bros. Co.*, 252 F.2d 945, 957 (2d Cir.), *cert. denied*, 358 U.S. 829 (1958) (an association's collective mark was placed on bread labels together with a bakery's own name or mark; the court treated both marks as a "trademark"); *F.R. Lepage Bakery, Inc. v. Roush Bakery Prods. Co.*, 851 F.2d 351, *modified*, 863 F.2d 43 (Fed. Cir. 1988) (same). *Cf. Boise Cascade Corp. v. Mississippi Pine Mfrs. Ass'n*, 164 U.S.P.Q. (BNA) 364, 367 (TTAB 1969) (in some circumstances, both a membership mark and a trademark may appear on goods).

[5]While the case was pending before the Ninth Circuit, Sebastian also registered its mark as a collective service mark, but *not* as a collective trademark. Pet. A2 n.1. Even a collective service mark, however, "serves not to identify particular merchandise produced by members. . . ." *Professional Golfers Ass'n*, 514 F.2d at 668.

Procedure §1304.01. Again, the Court would have to address this particular issue without the benefit of any court of appeals decision on point.[6]

D. For this reason also, there is no circuit conflict. The petition suggests there is one, but for one of the purportedly conflicting decisions, the petition candidly admits that there is no conflict in either the holding or the rationale of that decision.

> *Matrix* actually was decided on a different basis than the Ninth Circuit's rationale for applying the first sale doctrine to downstream sales by independent parties.

Pet. 12 (citing *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587 (5th Cir. 1993)).[7]

The court of appeals below identified the basic reason why there is no circuit conflict. Longs Drug simply

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[6] In addition, the Court would have to address a point raised by the concurring opinion in the court of appeals: that Sebastian's collective mark was not validly registered because the application for the mark was not made by the organization itself but only by one of its members. Pet. A10.

[7] A second asserted conflict is not even a trademark case. *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), concerned a patented medical device that was sold subject to a condition that the purchaser use the device only once. The issue was whether this condition was permitted by the patent owner's "right to exclude" use of an invention under a patent monopoly.

Bill Blass Ltd. v. SAZ Corp., 751 F.2d 152 (3d Cir. 1984), is even more remote. It involved the licensing of a third party, Fischer, to manufacture and sell an trademarked product. The licenses expired. The defendant bought the licensee's assets and agreed "to assume Fischer's obligations under the licenses." *Id.* at 155. Although the expired licenses terminated the right to sell what Fischer had manufactured, the new owner continued selling. No such license or expiration of rights is at issue here.

stocked and resold genuine products purchased in the open market. No court of appeals has ever held (or suggested) that such ordinary commercial conduct could be deemed a Lanham Act violation. As the Ninth Circuit has stated:

> [A] purchaser who does no more than stock, display and resell a producer's product under the producer's trademark violates no right conferred upon the producer by the Lanham Act. . . .

Pet. A6.

In sum, the only thing that is "plain" about the petition is that it does not present a ripe question of circuit conflict or of federal importance. The petition's main premise, that this case presents a conflict between the "plain language" of the Lanham Act and the first sale doctrine, is largely undeveloped in the record. Just to reach the purported conflict with the Lanham Act, this Court would necessarily have to consider a variety of evidentiary and legal issues unresolved by the Ninth Circuit below and undeveloped by other courts of appeals. Plainly, even if the issue purportedly presented by this petition were deemed of federal importance, it should await a clearer factual setting and the more developed legal terrain of a future case.

II.

THE NINTH CIRCUIT'S APPLICATION OF THE "FIRST SALE" RULE IS WHOLLY CONSISTENT WITH THIS COURT'S PAST DECISIONS.

The first sale doctrine "finds its origins in the common law aversion to limiting the alienation of personal property." *Sebastian Int'l, Inc. v. Consumer Contracts (PTY), Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988) (applying the

first-sale doctrine to Sebastian's copyrighted labels). The rule is not peculiar to trademark law, but has long been applied by this Court to copyright and patent claims.[8] It permits department stores, pharmacies, general merchandisers and even hair salons to find after-markets for their excess inventories of goods—even though those goods may have patented, copyrighted or trademarked elements.[9]

As the petition acknowledges, this Court first applied the first sale doctrine to trademark law in *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924) ("The defendant . . . by virtue of its ownership, had a right to com-

---

[8] Copyright: *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908) (the rule precludes "restriction on the subsequent alienation of [a copyrighted article] after the [copyright] owner had parted with the title to one who had acquired full dominion over it"); *see* 17 U.S.C. §109(a).

Patent: *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852) ("[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly."); *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456 (1873) (upon sale, a patented item "is open to the use of the purchaser without further restriction on account of the monopoly of the patentees"); *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942) ("An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it . . . [and] is a relinquishment of the patent monopoly with respect to the article sold.").

[9] The argument put forward by *amicus curiae* COPIAT in support of the petition is both factually and legally erroneous. First, the Ninth Circuit did not base its decision on "discredited antitrust doctrine," but rather on the well-recognized "first sale" rule. Second, as discussed below, COPIAT's reliance on *Continental T.V. v. GTE Sylvania*, 433 U.S. 36 (1977) is misplaced because that case dealt with restrictions placed on a supplier's own customers. Here, Sebastian attempts to achieve, via use of a collective membership mark, that which it could not achieve through a trademark—i.e., the elimination of competitive activity by downstream resellers who are not under contract with Sebastian.

pound or change what it bought, to divide [it] and to sell it so divided."); *see Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129 (1947). The text of the Lanham Act (enacted in 1946) does not disclose any intent to overrule *Prestonettes.* Indeed, the legislative history indicates the contrary:

> Trade-marks are not monopolistic grants like patents and copyrights (Trade-mark cases, 100 U.S. 82). In *Prestonettes v. Coty* (264 U.S. 359), Mr. Justice Holmes said (368):
>
> > It [a trade-mark] does not confer a right to prohibit the use of the word or words. It is not a copyright. * * * A trade-mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his.

S. Rep. No. 1333, 79th Cong., 2d Sess. (1946), *reprinted in* 1946 U.S.C.C.A.N. at 1275.

Petitioner suggests that the decision below conflicts with one of the rationales in *Prestonettes*:

> When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth.

264 U.S. at 368. Of course, as discussed *supra* at 6-7, Longs Drug did nothing deceitful. It simply stocked and resold genuine goods. In fact Longs did less to the goods than did the defendant in *Prestonettes*, who repackaged "Coty" trademarked face powder and perfume and then reproduced the "Coty" name on the package in a factual manner.

Petitioner and its *amicus* also suggest that the decision below conflicts with antitrust principles from this Court's past decisions. Pet. 12; COPIAT Br. 13-15. The authori-

ties cited, however, deal only with the ability of a manufacturer to control the terms of distribution *with its own customers*—not to control downstream resales by persons not under contract with the manufacturer. Thus, in *Continental T.V. v. GTE Sylvania*, 433 U.S. 36 (1977), the Court simply ruled that it was not a *per se* violation of the Sherman Act for a manufacturer contractually to restrict its dealer-customers from selling in the territories of other dealers. This Court has never said that it is procompetitive for a manufacturer also to control the aftermarkets for its products, downstream from its direct customers. *Cf. Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 477 (1992 ("It is clearly reasonable to infer that Kodak has market power to raise prices and drive out competition in the aftermarkets.").

More to the point, Congress never intended the Lanham Act to give registrants of collective membership marks the power to control downstream resales beyond their own dealer networks. As the court of appeals has stated here:

> Nothing in the language or legislative history of the Lanham Act suggests that, by authorizing registration of marks identifying membership in a lodge, political party, club, or other collective organization, Congress intended to provide producers with a simple and fail-safe method to control the channels of distribution of trademarked products. . . . There is no mention of this possibility in committee hearings or reports, on the floor of Congress, or in subsequent case law or commentary.

Pet. A5. Simply put, the decision below does not conflict with the statute, and it does not conflict with past decisions of this Court.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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September 7, 1995

APPENDIX A

APPELLANT'S EXCERPTS OF RECORD ("ER")
Sebastian International Inc. v. Longs Drug Stores Corporation
9th Cir. No. 94-55461

FROM ER 117:

CHARTER

SEBASTIAN AUTHORIZED BUSINESS CLUB

I NAME

The name of this business club is Sebastian Collective Salon Membership Program.

II PURPOSE

The purpose of this business club is to engage in any lawful and proper act or activity (a) to promote the collective welfare of customers of Sebastian International, Inc. ("SEBASTIAN") and its authorized distributors and salons through encouraging and achieving customer education and satisfaction in the selection and use of SEBASTIAN products and the services of its authorized distributors and salons, (b) to directly benefit Sebastian International Inc.'s authorized distributors and salons by achieving deeper market penetration in a highly competitive market, and (c) to combat diversion of Sebastian International Inc.'s products.

III BOARD OF ADVISORS

This business club will be governed by a Board of Advisors comprised exclusively of executives and/or personnel of SEBASTIAN.

* * *

FROM ER 1011-12, 1015:

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

No. 93-2891 WDK (EEx)

SEBASTIAN INTERNATIONAL, INC.,
a California corporation,

Plaintiff,

v.

LONGS DRUG STORES CORPORATION,
a Maryland corporation,

Defendant.

DECLARATION OF JOHN J. KUCHINSKI
IN SUPPORT OF PLAINTIFF'S REPLY
IN SUPPORT OF PLAINTIFF'S MOTION
FOR PRELIMINARY INJUNCTION

Date: January 31, 1994
Time: 3:00 p.m.

I, JOHN J. KUCHINSKI, hereby declare as follows:

1. I am Vice President/Legal Affairs of Sebastian International, Inc., the plaintiff in this action, and have been employed by Sebastian for in excess of five (5) years. . . .

* * *

3. The Collective, and all restrictions arising therein, were created independently by Sebastian, without input of any kind from distributors or salons.

* * *

12. Along with the creation of the Collective has come a large number of membership and advertising materials, all displaying the collective membership and service marks, which are available for display inside a member's store, as well as on their store front. It is my understanding that a substantial majority of members have chosen to utilize their window decals to announce their membership to all who pass by the business establishment.

* * *

FROM ER 169-173:

HAIR CARE SURVEY

Purpose of the Survey

The survey was conducted by Cogan Research Group to provide objective evidence of the extent to which there is or is not likelihood of confusion among relevant consumers concerning affiliation of Longs Drug Stores Corporation with Sebastian International Inc. and Sebastian International Inc.'s "Sebastian Collective Salon Membership Program" (the 'Collective').

Research Procedure

A total of 421 in-person interviews were completed with consumers in the relevant market who were surveyed regarding their beliefs about the affiliation of stores or shops and drug stores carrying Sebastian hair care products with Sebastian International Inc. and the Sebastian Collective Salon Membership Program. The relevant market was defined as women 18 years or older, who during the past six months had shopped in a drug store and had purchased hair care products at a drug store or a hair salon or beauty parlor. Only women were interviewed as they are the primary purchasers of these hair care products.

A two step survey procedure was used:

Step One–Qualifying to Be Interviewed

First consumers were "screened" in large shopping center malls to determine whether they qualified for participation in the survey. (Permanent market research interviewing centers which are located in these malls

were retained to "screen" potential survey respondents (participants) according to the "relevant market" requirements, and to conduct the interviews. See the Appendix of this report for copies of the survey screener and questionnaire.

Step Two–Conducting the Interview

In step two those who met the survey qualification requirements were invited individually to accompany the interviewers to the interviewing center in the mall. Each survey respondent was escorted to an interviewing booth and asked to be seated. They were told that they would be shown material and products related to hair care.

First Visual Shown to the Respondent–The Decal/Sign. The interviewer handed the survey respondent the sign/decal, which might be displayed on the window of a store or shop:

See Appendix for a sample of sign/decal and photographs of the product shown survey respondents.

The interviewer than asked the respondent the following questions:

2a. This is a sign or decal which might be displayed on the window of a store or shop. Please read it along with me. "Sebastian Collective Salon Member."

2b. If you saw this sign or decal on a store or shop window, what would you believe it meant? If you have no opinion about this, just say so. (The respondent's answers were recorded verbatim.)

2c. Do you believe the owner or manager of the store or shop which would display this sign would or would not have to get authorization or permission to display it? If you have no opinion about this, just say so.

Have to get authorization or permission (ASK Q.2d)

Not have to get authorization or permission (SKIP TO Q.3a)

Don't know (SKIP TO Q.3a)

No opinion (SKIP TO Q.3a)

2d. What makes you believe the owner or manager of the store or shop would have to get authorization or permission to display it? (The respondent's answers were recorded verbatim.)

2e. Who do you think the owner or manager of the store or shop would have to get authorization or permission from to display it? (The respondent's answers were recorded verbatim.)

THE SIGN/DECAL WAS REMOVED FROM SIGHT

Second Visual Shown to Respondent–Hair Spray Can with "Collective" Rectangle. The interviewer then handed the survey respondent the Sebastian Shaper Plus Hair Spray can which on its back has a rectangle with the same wording and look as the sign/decal:

See Appendix for a sample of sign/decal and photographs of the product shown survey respondents.

The interviewer than asked the respondent the following questions:

3a. Now imagine you are shopping in a drug store which you regularly shop in. You walk into the hair care section of the drug store, see this product on the shelf and pick it up.

If you saw this hair care product on the shelf of the drug store, and saw this (POINT TO RECTANGLE "SEBASTIAN COLLECTIVE SALON MEMBER") what would you believe it meant? If you have no opinion about this, just say so. (The respondent's answers were recorded verbatim.)

3b. If you saw this hair care product on the shelf of a drug store, would you believe the owner or manager of the drug store would or would not have to get authorization or permission to carry it or do you have no opinion about this?

Have to get authorization or permission (ASK Q.3c)

Not have to get authorization or permission (SKIP TO Q.3e)

Don't know (SKIP TO Q.3e)

No opinion (SKIP TO Q.3e)

3c. What makes you believe the owner or manager of the drug store would have to get authorization or permission to carry it? (The respondent's answers were recorded verbatim.)

3d. Who do you think the owner or manager of the drug store would have to get authorization or permission from to carry it? (The respondent's answers were recorded verbatim.)

3e. Would you believe the drug store is or is not affiliated with or associated with the Sebastian Collective Salon program or do you have no opinion about this?

Is affiliated or associated with (ASK Q.3f)

Not affiliated or associated with (SKIP TO Q.4)

Don't know (SKIP TO Q.4)

No opinion (SKIP TO Q.4)

3f. What is it that makes you believe the drug store would be affiliated with or associated with the Sebastian Collective Salon program? (The respondent's answers were recorded verbatim.)

REMOVE DISPLAY ITEM "B", (THE HAIR CARE PRODUCT)

* * *

APPENDIX B

MEMBERS OF NATIONAL ASSOCIATION OF CHAIN DRUG STORES

Albertson's, Inc.
American Drug Stores, Inc.
Andorra Pharmacy Inc.
Arbor Drugs, Inc.
Ark Drugs
The Arrow Corporation/Arrow Prescription Centers
Arthur Drug Stores Inc.
The Bartell Drug Company
Big B, Inc.
Big Bear Stores
Buffalo Pharmacies
CRX Pharmacy
CVS
Carle RX Express
Carrs Quality Centers
City Drug Stores Inc.
City Drugs
Clover Stores
Concord Drugs, Inc.
Corner Drug Stores
D & W Pharmacies, Inc.
Davidson Drugs, Inc.
Discount Drug Mart, Inc.
Downeast Pharmacy, Inc.
Drug Barn Inc.
Drug Emporium, Inc.
Drug Fair Stores of NJ
Drug World Pharmacies
Drugtown Drugstores

Duane Roade
Eckerd Corporation
Emm-Dee Drug Corporation
F & M Distributors, Inc.
Fay's Incorporated
Fedco Professional Pharmacies
Fedco, Inc.
Fred's Inc.
Freedom Drug Inc.
Fruth Pharmacy
Genovese Drug Stores, Inc.
Giant Eagle, Inc.
Giant Food Inc., Pharmacy Div. Giant Discount Drug
Grand Union Company
Gresham Drugs, Inc.
H-E-B Foods/Drugs Inc.
Haggen, Inc.
Happy Harry's Discount Drugs
Harco Drug Inc.
Harmon Discount Stores
Hartig Drug Stores
Health Care Professionals
Hi-School Pharmacy Inc.
Horton and Converse Pharmacies
Hyde Drug, Inc.
I got it at Gary's
Joel N' Jerry's
Judd Drugs, Inc.
K&B Services, Incorporated
Keltsch Bros. Inc.
Kerr Drug Stores, Inc.
Keystone–Medicine Chest Pharmacies
Kinney Drugs, Inc.
Kmart Corporation
Knight Drugs Inc.

Kopp Drug Inc.
Kurtz Pharmacy, Inc.
Lewis Drugs, Inc.
Longs Drug Stores
Marc Glassman Inc.
Marsh Drug Stores, Inc.
Maxi Drug, Inc.
May's Drug Stores, Inc.
McKay Drugs
Med-X Corporation
Medic Discount Drug
Medical Center Pharmacy
Medicap Pharmacies, Inc.
Medicine Shoppe International, Inc.
Medisave Pharmacies
Meijer, Inc.
Monahan Pharmacy Inc.
Navarro Discount Pharmacies
NeighborCare Pharmacies
Nelson's Drug Stores
Northtowne Pharmacy, Inc.
Osborn Drugs, Inc.
Super Save Drugs/Owl Pharmacies, Inc.
Parkway Drugs
Pathmark Stores, Inc.
Pelton's Drug Stores
Perry Drug Stores, Inc.
Phar-Mor, Inc.
Pharmhouse, Corp.
Pic 'N Save Drug Co., Inc.
The Price Company
Price-Less Drug Stores, Inc.
Quick Chek Food & Pharmacy
Reasner Drugs, Inc.
Retire Persons Services, Inc.

Revco D.S., Inc.
Rite Aid Corporation
Ritzman Pharmacies, Inc.
Rock Bottom Stores, Inc.
The Rx Place
Rx Plus
RxD Pharmacies, Inc.
Safeway, Inc.
Sav-On Drugs, Inc.
Save Mart Supermarkets
Seaway Food Town, Inc.
Service Discount Food & Drugs Inc.
Shelly's Pharmacy #1, Inc.
Shop 'N Save Food and Drug Superstores
Shopko Stores, Inc.
Smith's Food and Drug Centers
Smitty's Super Valu, Inc.
Snyder Drug Stores, Inc.
Super D Drugs Inc.
SUPERVALU Pharmacies, Inc.
Target Stores, A Div. of Dayton-Hudson Corp.
Taylor Drug Stores, Inc.
Thrift Drug, Inc.
Thriftway Drugs
Thrifty PayLess, Inc.
Thirify Drug Stores, Inc. dba Thrifty White Drug, Inc.
Thrifty Drugs of Hawaii
Valco Drug Stores
The Vons Companies, Inc.
Wakefern Food Corp./ShopRite
Wal-Mart Stores, Inc.
Walgreen Co.
Weatherwax Drug Stores
White Shield, Inc.
L. F. Widmann, Inc.

Supreme Court, U.S.
FILED
SEP 25 1995
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No. 95-237

IN THE
Supreme Court of the United States
OCTOBER TERM, 1995

SEBASTIAN INTERNATIONAL, INC.,
Petitioner,
vs.
LONGS DRUG STORES CORPORATION,
Respondent.

PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

PETITIONER'S REPLY BRIEF

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Page

Cases

Champion Spark Plug Co. v. Sanders,
331 U.S. 125 (1947) 1, 2, 3

Continental TV, Inc. v. GTE Sylvania, Inc.,
433 U.S. 36 (1977) 3-4

Mallinckrodt, Inc. v. Medipart, Inc.,
976 F.2d 700 (Fed. Cir. 1992) 4

Prestonettes, Inc. v. Coty,
264 U.S. 359 (1924) 1, 2, 3

Statutes

15 U.S.C. § 1054 3
15 U.S.C. § 1114 3
15 U.S.C. § 1125 3

No. 95-237

In The
SUPREME COURT OF THE UNITED STATES
October Term, 1995

SEBASTIAN INTERNATIONAL, INC.,
Petitioner,
vs.
LONGS DRUG STORES CORPORATION,
Respondent.

PETITIONER'S REPLY BRIEF

This Court's decisions in *Prestonettes v. Coty*, 264 U.S. 359 (1924) and *Champion Spark Plug Company v. Sanders*, 331 U.S. 125 (1947) both require full disclosure to protect the public from confusion. Telling the truth is what Justice Holmes called it. 264 U.S. at 368.

On the other hand, the Ninth Circuit and Respondent Longs say that when a trademark is used without permission, the finding of a likelihood of public confusion, the core of the Lanham Act, is irrelevant:

> But as the court of appeals correctly pointed out, such [public] 'confusion' is legally irrelevant and could not support the District Court's order. *Sebastian*, 53 F.3d at 1076-7.

Respondent's Brf. at 6.

Respondent's own statement contradicts its *Amicus Brief*, that claims there is no clear record from which this Court can render a decision. *Amicus Brf.* at 4. Nothing could be further from the truth. The Ninth Circuit has drawn a bright line separating itself from *Prestonettes, Champion*, and the literal language of the Lanham Act.

Here, Longs never told the public it was not part of the Sebastian Collective. In contrast, a disclaimer in *Prestonettes* was required despite the finding by this Court that the trademark user had not altered or adulterated the trademarked goods. In the present case, the district court found that Longs was selling Sebastian products in a manner which was likely to cause confusion, and could harm Sebastian's reputation. (App. C2, C7-10). But the Ninth Circuit still maintains that any public confusion, and any resulting harm to the members of the Sebastian Collective, are not the issue.

The *Amicus Brief* attempts to muddle the issues by painting the Sebastian Collective Membership mark as an obscure and enigmatic legal issue. That is not so. Indeed, Longs concedes that collective marks should be treated the same as any other trademark. Respondent's Brf. at 7-8.

The effect of the Ninth Circuit decision on a collective membership mark, or a trademark for that matter, can be easily seen in a hypothetical example not unlike the present situation. A group of hair salons form a business association, deciding to foster public awareness of that association and each salon's membership in it. Subsequently, the association obtains a federally registered collective membership mark, calling the collective the "Bassoon Group." Then, the Bassoon Group decides that it wants to begin selling exclusive hair care products, so it hires "Brell Company" to manufacture Bassoon Group products. These products have a

proprietary formula which the Bassoon Group believes is better than any other on the market.

Brell, after manufacturing the hair care products, uses a distributor to sell the products to the Bassoon Group members in the quantities that each individual member desires. On the hair care products is the collective membership mark with a statement that the seller of the product is a member of the Bassoon Group, which is the only place these products can be purchased. Unfortunately, someone who is not at all authorized sells the Bassoon products with the collective membership mark to "Head Flakes," an establishment that is not a member of the collective. The public begins to buy the Bassoon Group products at Head Flakes, believing that Head Flakes is a member of the Bassoon Group.

Under the Ninth Circuit's decision, whether Bassoon or Brell started the collective doesn't matter. Whether the public is confused into thinking Head Flakes is also a member of the Bassoon Group also is irrelevant. All that matters is the (illegal) sale to Brell, which terminates all rights, collective membership rights, and/or trademark rights, and/or rights to prevent unfair competition. 15 U.S.C. §§ 1054, 1114, 1125.

In short, the Bassoon Group has no rights nor any legal remedy whatsoever, according to the Ninth Circuit.

The duty to tell the truth, articulated by Justice Holmes in *Prestonettes*, which is no different than the full disclosure requirement of *Champion*, has thus been obliterated by the Ninth Circuit. The explicit "confusion" language of the Lanham Act, 15 U.S.C. §§ 1114 and 1125, also has been excised entirely from the statute in a "per se" manner. That should not be and, it is respectfully submitted, is not the law. Rather, the proper approach is to use the "rule of reason" to analyze the alleged anticompetition action. *Continental TV, Inc. v.*

GTE Sylvania, Inc., 433 U.S. 36 (1977); *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

A dangerous precedent has been set, and it must be rectified.

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Respectfully submitted,

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